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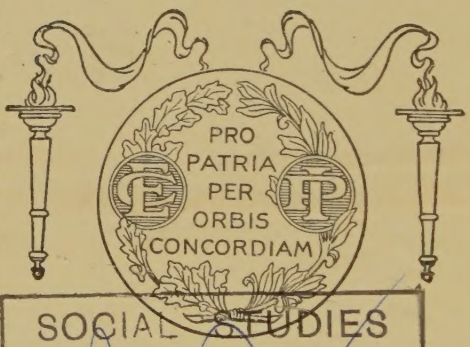

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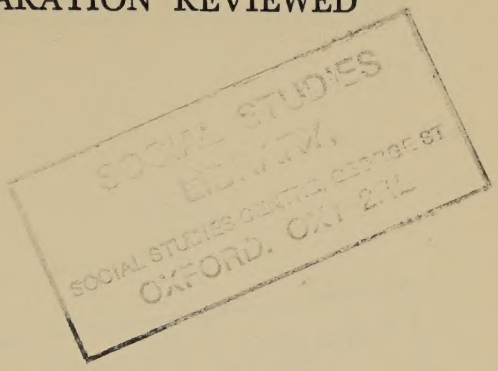
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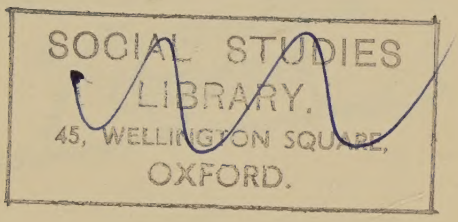
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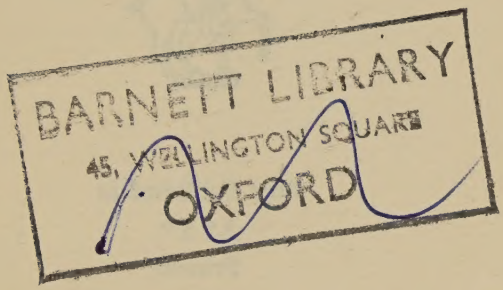
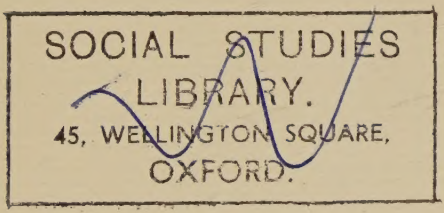
REPARATION REVIEWED

BY

SIR ANDREW McFADYEAN





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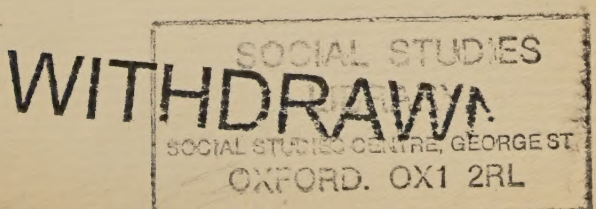

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PREFACE

The concluding chapters of this book were written in the course of 1929, shortly after the Young Committee had presented its report. There is an inevitable time-lag between composition and publication, which in the present instance has been somewhat prolonged by events which I could not control. After consideration I have decided that something might be lost and that not much could be gained by an attempt to bring this portion of the book right up to date.

My main conclusions are, in fact, little affected by anything which has happened in the interval. Financial difficulties have been succeeded by a world-wide depression in which the conditions peculiar to one country, be it Germany or Great Britain, are somewhat difficult to disentangle from those affecting all countries alike. In particular the continued improvement in the German trade balance has still enjoyed too short a run to enable us to base any firm conclusions upon it. Germany's internal finances have been patched up, but a radical reform is dependent on political conditions which, on the eve of a general election, are obscurer than ever.

In general, there is no reliable prophet who can tell us how much in the present economic situation is merely transitory, and how much is likely to be reasonably permanent. But if the world has to adopt itself to anything like the present level of prices, I incline to the belief that from the reparation standpoint the most important fact which emerges from a consideration of the economic phenomena of the last twelve months is that the real burden on Germany, as determined by the Young Plan, may well prove, owing to the change in the value of gold, to be heavier, and not lighter, than the obligations of the Dawes Plan, which were adjustable to such a change.

I owe a particular acknowledgment of gratitude to Sir

Walter Layton, who was good enough to read the book in draft and make valuable suggestions. I also desire to thank Sir Josiah Stamp for help and encouragement in the writing of the earlier chapters; for obvious reasons I desire to make it clear, however, that he has no kind of responsibility for, or knowledge of, the later chapters. Finally, my thanks are due to the Editors of the *Economic Journal* for permission to re-employ matter which I had already utilised in articles which appeared in that publication.

13th September, 1930.

ANDREW MCFADYEAN.

CHAPTER I

THE PEACE CONFERENCE AND REPARATION

A passage in *The Economic Consequences of the Peace* puts succinctly the gravamen of the charge which Mr. Keynes brought against it from the economist's standpoint. "The Treaty includes no provision for the economic rehabilitation of Europe – nothing to make the defeated Central Empires into good neighbours, nothing to stabilise the new States of Europe . . . ; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for restoring the disordered finances of France and Italy, or to adjust the system of the Old World and the New."[1] To study the history of reparation over the last ten years is to observe the process by which efforts have been made to remedy the defects enumerated in the above indictment and must therefore touch on other international problems. We may now say that a large measure of success has attended these efforts, but it would obviously be premature to say that the process was complete.

It is unnecessary for our purpose to examine in any great detail the conditions and events which governed the making of the Treaty of Versailles and of the Reparation Chapter thereof in particular; this aspect of our question

[1] *The Economic Consequences of the Peace*, Macmillan, 1919, p. 211.

has been fully discussed, with an authority and a trenchancy which I could not rival and to which I render the sincerest homage, by Mr. Keynes in the work cited.

I may safely assume that no reader of this more modest study will not be familiar with that masterly presentment of the great Peace Congress of 1919. Nevertheless my own outlook might perhaps be insufficiently developed if I omitted to state with the necessary briefness some of the influences which appear to me, looking back after a lapse of time sufficient to place events in clearer perspective, to have contributed to the grosser errors of the Peace Treaty.

In the forefront of the evil influences which operated in the making of the Treaty I would put the character of the Governments (which at such a moment is almost equivalent to saying of the Governors) of the Allied countries. Mr. Keynes remarked, when discussing the remedies which could be applied to the economic ills flowing from the Treaty, that the replacement of the then existing Governments of Europe was an almost indispensable preliminary.[1] Events have proved the justice and shrewdness of this observation; no real progress was ever made in the history of the Reparation question until a Labour Government in England found a Radical Government in France with which it could treat. Why was a change of Governments essential? In my opinion the character of the existing Governments was the greatest obstacle to the conclusion of a just and durable peace. It may perhaps be presumed that in the course of four years the warring countries had found the leaders who, regard being had to all the circumstances, including their power to impress the public mind with their real or apparent efficiency,

[1] Op. cit., p. 240.

were best qualified to wage war. What reason was there to suppose that these leaders were equally the best qualified to make a peace which was to end war? The war had been in its inception a passionate crusade in most of the Allied and Associated countries, and in England in particular. It would be absurd to contend that the *Morning Post* drew its passion from the springs of a crusading spirit; it would, on the other hand, be a manifest untruth, in my opinion, and one belittling to our national history, to deny that the hundreds of thousands of young Englishmen who voluntarily joined the colours during the early stages of the war were actuated by altruism. The plain man did not then believe that the existence of the British Empire was closely menaced; rightly or wrongly, the British Empire would not have entered the war in August 1914 had not Belgium been invaded. The note of those days, as all know who were privileged to hear Lord Grey's speech in the House of Commons on the 3rd August, was "*Sursum Corda*." It would be idle to maintain that the nation lived on the heights of this rarefied atmosphere throughout the struggle, but even in 1918 it still regarded the war as the last war, and was prepared to respond to generous leadership. Almost everything in such a conjuncture depended on the British and American leaders; one of them at least was one of the world's great opportunists, and as much concerned with the uncertainties of his own political future as with the supreme task of making peace. The other may have been an opportunist – I have heard him described as such by those who had better opportunities of forming an opinion – but his supreme error seems to have consisted in a Sinaitic attitude which led him to dispense with all advice from his own friends, and a political

gaucherie which refused all co-operation with political opponents in an enterprise of unspeakable importance to the future welfare of all his countrymen. And it is partly for such reasons that the crusade was concluded in a spirit which soon led French people to talk cynically of "*la prochaine dernière guerre.*"

Another influence which in part explains the defects of the Reparation Chapter of the Treaty was a general mistrust of political economy and political economists. This mistrust is traceable in part to an incomplete assimilation of certain economic teachings, and in particular to a misinterpretation of Norman Angell; the man in the street believes that, according to *The Great Illusion* and the pronouncements of various economists, war was an impossibility under modern conditions. In point of fact, Norman Angell's thesis may be succinctly expressed as follows: under modern conditions war is so ruinous both to victor and vanquished that only madmen would provoke it or enter into it; we may assume with reasonable safety that modern Governments will not embark on so demonstrably unprofitable, foolish, and wicked a course; therefore there will (not can) be no more war. The events of 1914–19 do not show that his conclusion was guilty of formal incorrectness; they falsified his minor, and have abundantly justified his major, premiss.

"If the war taught one lesson above all others, it was that the calculations of economists, bankers, and financial experts, who preached the impossibility of war because 'it would not pay,' were perilous nonsense."[1] If the peace has taught one lesson above all others, it is that the contention

[1] *The Times* of the 5th January, 1920, reviewing *The Economic Consequences of the Peace.*

of economists that war cannot pay, and that excessive demands upon the vanquished in defiance of all economic, banking, and financial teaching, defeat their own object, is the plainest common sense.

Another ingredient in this mistrust was an ignorance as to the functions of the economist, which accounts for attacks made upon him even by men who would not readily classify themselves as "plain." They fail to realise that the economist deliberately abstracts to deal with his problem; the degree of abstraction necessarily varies with the circumstances, but it is always present, and the economist leaves it to others who require to apply his conclusions in particular cases to introduce the complicating and extraneous elements which may condition the application.

Economists doubtless make mistakes, as do other scientific workers; indeed, the want of unanimity among them is a sufficient indication of their fallibility. I believe that distinguished scientists proved in the past that artificial flight was impossible; it was not on that account made possible by ignoring or being ignorant of mathematics. Unfortunately, economics were ignored in the Paris Peace Conference; and there were enough and to spare who commanded trust and were prepared to subscribe to the most extravagant estimates of Germany's capacity to pay. The cult of the business man, founded on the belief that if a man could make money he could administer a State, with all its social and political implications and complications – a belief which is no truer than its converse – died hard.

Moreover, the public mind had habituated itself to astronomical figures. Whatever the economist had thought of the possibilities of financing modern warfare, the plain

man had never dreamed that taxation and national indebtedness on the scale which they attained had been remotely possible; members of Parliament, often members who would have scorned to be numbered among political economists, had explained that a Liberal Government had in peace-time raised the income tax to a figure which left little or no margin for a further yield in times of national emergency. The financing of the war appeared almost miraculous; it had called forth an unsuspected wealth of resources, and it was natural enough to suppose that a new miracle could be produced to restore us all to pre-war conditions. With so many urgent needs which craved satisfaction, with so large a potential demand, it was unthinkable that the world was not at the threshold of a new era in which supplies would be forthcoming in feverish abundance, and in which the most probable mistake was asking from the vanquished less than they could afford to pay. There was no faint conception of the truth that if a demand for reparation is to be successful, it must be for such an amount as will prove in practice to have been less than could have been paid. The grosser errors of this period have now been purged away, so that the figure of 132 milliard gold marks at which Germany's reparation debt was fixed is commonly regarded as grotesque; it was, however, a mild and conservative estimate of the possibilities as compared with other figures officially discussed in Paris,[1] and these in their turn were pale shadows of estimates which great men were liable to put forward in

[1] Lord Curzon, in a letter of the 11th August, 1923, mentions a French estimate of 800 milliard gold marks. It is only fair to add that he also mentions a British estimate of 480 milliards, and there is not much to choose between two impossible figures, even if one is 66 per cent. higher than the other; it cannot be 66 per cent. more impossible!

unguarded conversations. This frame of mind died hard, especially in France; it was no mere joke which led a French journal to depict M. Poincaré turning away Germans bringing him 132 milliards with the entreaty, "Anything you like, but not that." M. Poincaré may have preferred for political reasons to have Germany in default, but it is my impression that he genuinely believed in the possibility of such a payment (though there is some reason to doubt whether he realised the meaning of "present value"); and as lately as the Allied Conference which preceded in the winter of 1921–2 the occupation of the Ruhr he professed objection to the British plan then put forward on the ground that it would enable the Germans to liberate themselves of the whole debt in fifteen years' time![1]

I will allude finally to one difficulty which must have impeded the work of the Peace Conference, as it constantly impeded the execution of the reparation clauses of the Treaty; I do so with considerable hesitation, for the difficulty appears to me to be so self-evident that insistence upon it must be platitudinous; it is possible, however, that what is self-evident to one who was immersed in inter-Allied work for many years may be more novel to those not so familiar with the difficulties of that work.

Unanimity in the war was comparatively easy of attainment; the interests of all the Allied participants were substantially identical, and there was a very real subordination

[1] See next chapter, p. 25. The principal features of the plan in question provided for a first series of bonds to the face value of 50 milliard gold marks which could be redeemed at 50 at the end of 1923 and at a price gradually increasing annually up to 1954, when the bonds were finally redeemable. M. Poincaré was fearful that Germany would find credit in the world for 25 milliard gold marks within one year. It is hard to understand the outlook of a former Finance Minister who could believe this possible, or of a French Prime Minister who could be frightened at the idea that the possibility would be realised.

of all minor and possibly conflicting interests to the achievement of the main end; discussion of means could be regarded as more or less a scientific problem. The identity of interests in the Peace Conference was by no means so complete, but, even if it is assumed that all parties were united in regarding the conclusion of a durable peace as the object in view, there was almost immeasurable room for difference of opinion as to the elements of durability. But even more embarrassing were the differences in national outlook and temperament, which find their most clearly cut exemplification in the contrast between the Anglo-Saxon and the Frenchman. I do not hesitate to say that the interests of France and England in the reparation problem were identical throughout, though no Frenchman has ever believed it, and many English expressions of opinion, especially in Protectionist circles, have furnished grounds for such incredulity. But the angles from which an Englishman and a Frenchman regard such a complicated financial, political, and social problem are so entirely different that one is almost tempted to say that they are not so much viewing one problem in different lights as seeing different problems, thanks to radical differences in the organs of vision themselves. I believe that a great deal of the difficulty which the two nations have in understanding each other is that the natural approach to a problem (even a political one) for an Englishman to adopt is from the economic standpoint, while the natural approach for a Frenchman (even in the case of an economic problem) is from the political standpoint. We are set on an island, comparatively free from everyday preoccupations of international politics except in so far as they touch the interests of our

trade, which is our life-blood; France is an integral part of the Continent, and her contact with all its political actions and reactions is constant and insistent. We live by foreign trade and think in terms of trade; France is, or was, very nearly self-supporting, and thinks in terms of politics, which appear to her to be distinct from, and superior to, trade, which is touched with sordidness. And here is to be found the source of some paradoxes; France is insular, while the British Empire is so far flung and so dependent for a long time to come on the prosperity of the rest of the world for its own that to think imperially is near to thinking internationally. France is a nation of shopkeepers; I would not be supposed to mention the trait in disparagement, for in truth the French ability to save is one of the foundations of French greatness, but it is a fact that in France sous are counted as in the north of Britain; nothing is more striking to the foreigner than that every third remark casually overheard in the street relates to money. Britain, on the other hand, is a nation of wholesale traders, with some of the faults of buccaneers, but trained in the tradition of big business enterprise and risk. Its policies, whatever Government may be in power, may be influenced and tempered by the City and by trained economic thought; in France there have never been lacking minds as "clairvoyant," but their influence on the course of Government policy in matters in which their advice should be almost decisive is rarely perceptible.[1] Quite early in the

[1] "As to the Bankers' Committee, to which Mr. Bonar Law had referred, the French Government had never dreamed in any circumstances of submitting its rights to a committee of this kind. Personally he (M. Poincaré) had a very limited confidence in committees of bankers for the direction of public affairs; he was not ignorant that they had played for some time a considerable rôle in international politics. But he wished to make clear that bankers did not, and would not, exert any influence on the French Government,

history of the problem, almost so soon as the tumult and the shouting had died, and the generals and politicians had departed from Paris, Britain was prepared to treat reparation as a gigantic business proposition; in France it has been regarded sometimes consciously, almost always subconsciously, as a political problem. Not unnaturally, a political problem for a Frenchman means one involving considerations of peace and war, and accordingly in French minds reparation and security have always been closely associated problems. This association, however, had its greatest influence on the march of events in the period which succeeded the making of the Treaty, and a consideration of its effects belongs more properly to the next chapter.

which was, and wished to remain, master of its destinies. International finance had no influence on French policy." – M. Poincaré, 4th January, 1923; *v.* Cmd. 1812, published by Stationery Office, 1923. Any comment would only detract from the sweetness of this unconscious jest.

CHAPTER II

THE ADMINISTRATION OF REPARATION

1920–1924

I propose in this chapter to sketch in outline, with only summary comments, the history of reparation between the coming into force of the Treaty in January 1920, and the institution of the first Experts' Committee, popularly known as the Dawes Committee, four years later. I shall attempt in the succeeding chapter to explain what were, in my opinion, the underlying causes of the dangerous failures of that period.

After the Treaty had been framed and signed British public opinion underwent a sweeping change in an almost incredibly short period; *The Economic Consequences of the Peace* appeared towards the end of 1919, before the Treaty entered into force, and, in spite of the antagonism which it aroused in certain circles, where any approach to reasonableness was denounced as pro-German, its success was immediate and widespread. It was one of those rare books which effectively created a public opinion, and it gave a firm lead to all Liberal thought in England. Mr. Lloyd George himself watched the cat jump, and jumped after it – almost as quickly but

not quite so far. French opinion was to prove much less malleable, and the belief that Germany would pay not only what France needed, but also meet the bill for the extravagance which this belief fostered, was to die very hard.

On the other hand, there was one handle by which the problem of Germany's payments could be grasped at once. The Treaty provided for the fixation of Germany's total debt before the 1st May, 1921, and it was quite clear that the interval was none too long for a valuation of the damages if the strict Treaty procedure was to be followed. In the meantime the undefined nature of Germany's liability was prejudicial to her credit, and therefore to future reparation payments; it was also a hindrance in Allied countries to the re-establishment of sound financial administration, since until Finance Ministers knew how much they could count on receiving from Germany it required more than ordinary austerity not to budget from hand to mouth. It was, therefore, in the interests of all parties to take a short cut through the Treaty procedure, and establish a lump-sum settlement, or *forfait*. Such a course would have had this additional advantage: no *forfait* could be established except by agreement with the Germans, and people were already wise enough to see that the present value of £*x* which the Germans undertook to pay was much greater than that of £2*x*, the payment of which was imposed on Germany. As early as July 1920, therefore, the Allied Governments met in Spa, with the Germans, to discuss summary methods of liquidating the reparation problem. Preliminary discussions between the French, Belgians, and British had already taken place some little time previously in Boulogne, and the Spa Conference was

immediately preceded by an inter-Allied conference in Brussels, where preliminaries were to have been further discussed.

The Spa Conference must stand out as a gigantic, and in some respects tragic, failure. The two or three days in Brussels were almost entirely devoted to a discussion and settlement of the percentual distribution of reparation receipts, a settlement which in the nature of things could satisfy no one and which was the worst possible prelude to a discussion with the Germans of the total of their debt. In the Conference itself this discussion was not even broached; the disarmament question absorbed much of the time available, and most of what remained was taken up with the problem of securing sufficiently large quantities of coal from Germany on reparation account.

The tangible fruits of the Conference were an arrangement by which Germany should be lent money to enable her to continue her coal deliveries, an uneconomic arrangement which only served to cloak the real hard facts of the situation, and an Inter-Allied Agreement regulating the distribution of all reparation payments. The distaste of the French people for "Supreme Councils" and for what were later called "cinematographic conferences" dates back to the failure of this first of the series. The Germans, thanks to the ill-judged truculence of Stinnes, had gone far to offend all parties; a conference which had been intended to settle, or at least to pave the way for a settlement of reparation, had ended in an arrangement to lend Germany money, and in an Inter-Allied Agreement in which each party – except perhaps the British – felt that he had been cheated out of his just

share. It was long before the ill-will engendered by this Conference ceased prejudicially to affect reparation policy and administration.

I feel bound to state that in my opinion the black feelings with which our Allies left the Conference were legitimate and natural. The British Ministers present on the occasion conspired to give an air of trickery and sharp practice even to demands and proposals which were sincere, frank, and harmless; there were demands to which no one of these epithets could be applied. Those who had no first-hand experience of it can scarcely conceive the enduringly bad effect produced on the French mind by the provision in the Spa Agreement, inserted in the interests of the British, whereby the value of the ships delivered by Germany should be based on the prices actually obtained in sales on the British market to British nationals, and the specious reasoning whereby that provision was defended. The Reparation Commission, in fact, valued the ships at considerably higher figures, and the question was a rankling sore for years after.

The real agenda of the Conference not having been broached, the question of settling Germany's debt was relegated to a further conference of Ministers which was to meet in Geneva the following month. This conference eventually took place, not in Geneva, but in Brussels, not in July, but in December, and was attended, not by Ministers, but by experts; probably the change in each particular was for the worse.

The Brussels Experts reported to their Governments on the 18th January 1921; the essentials of the problem, which are and were invariable, are contained in the following passage:

"It is generally recognised that the economic situation of Germany is much better than her present financial position. The improvement of the financial situation would promote the development of Germany's economic possibilities, thus ensuring considerable prosperity, as soon as the financial and monetary difficulties have been overcome; but it is almost impossible to say how soon this result can be attained.

"At the same time, it is a question of primary importance to let Germany know, as soon as possible, the extent of her obligations, so as to enable her not only to make plans to meet them, but also to begin as soon as possible actually to fulfil her obligations.

"Under these conditions, the Brussels Experts have thought right to examine the possibilities of an agreement by which Germany would undertake to pay, for five years, an annuity of three milliard gold marks, thus postponing the fixation of capital debt and the amount of subsequent annuities to some early date, in order to enable Germany to restore her financial situation to a certain extent."[1]

The figure suggested was, in my opinion, considerably too high even before subsequent events made further and serious inroads on Germany's immediate capacity, but it is interesting to note that the Report anticipated the 1924 Experts in their implicit recommendation that the capital debt should remain undetermined for a period of years. In January 1921 the capital of the debt had not even nominally been fixed; in 1924 it had been fixed, but at a figure which everyone knew and nearly everyone

[1] *V. Report on the Work of the Reparation Commission*, published by Stationery Office, 1923, p. 27.

admitted to be chimerical, having no relation to capacity to pay, and therefore valueless and as good as non-existent when the moment to make a final settlement arrived.

The Allied Governments characteristically improved upon the Report, and sought the agreement of the German Government at the end of January to a scheme whereby Germany should pay two annuities of 2 milliard (gold) marks, three of 3 milliards, three of 5 milliards, and thirty-one of 6 milliards, together with an additional sum each year equal to 12 per cent. of German exports. The German Government refused to shoulder this burden voluntarily, and subsequent events fully justified their attitude, for the burden of such a scheme would have been sensibly heavier than the burden imposed immediately after under the normal Treaty procedure.

On the 27th April, 1921, the Reparation Commission "decided unanimously to fix at 132 milliard marks gold the amount of the damage for which reparation was due from Germany under Article 232, paragraph 2, and Annex I. of Part VIII. of the said Treaty." M. Poincaré on more than one later occasion referred to this finding as if it were an estimate of Germany's capacity to pay; it cannot be too strongly emphasised that this view is absolutely devoid of foundation. The sole task of the Reparation Commission at that moment was to make a purely objective valuation of specific categories of damage incurred by the Allies through the war, and Germany's capacity to pay was entirely irrelevant; the finding represented merely the maximum amount which Germany could be called upon to pay if her capacity were equal to the burden; that amount should have been the same whether Germany's capacity had been currently estimated at twice

132 milliards or at half that sum, and I may perhaps be permitted to testify to my own belief that the Reparation Commission as a whole executed its task in a judicial spirit and with a total disregard of considerations which were irrelevant to an objective valuation based on questions of fact.

The next step required by the Treaty was that the Reparation Commission should draw up a Schedule of Payments for discharging the obligation within a period of thirty years. What sort of schedule the Commission would have drawn up if left to its own devices it is impossible to conjecture; in fact the Allied Governments, who were at that moment in council in London, had drawn up a schedule to their own satisfaction which the Germans were prepared to accept at the mouth of a pistol, and the Commission contented itself with adopting this schedule.

The schedule[1] did not, in fact, provide for the liquidation of the sums due within thirty years, or indeed within any period, since by the postponement of the greater part of the debt, which was to be represented by the famous "C" bonds, the present value of the 132 milliards was reduced to something in the neighbourhood of 70 milliards on an optimistic calculation of Germany's capacity to assume the service of these bonds after the liquidation of the "A" and "B" bonds.

It was hoped at the time by those who looked forward to a more radical and frank revision of the Reparation Chapter of the Treaty that the schedule would serve its purpose, without inflicting serious damage on German

[1] *V.* p. 4, *Reparation Commission: Official Documents relative to the Amount of Payments to be effected by Germany under Reparations Account*, published by Stationery Office, 1922.

economy, until public opinion in the Allied countries, and particularly in France, had had sufficient time to evolve further. In retrospect, the disappointment of that hope would appear to have been mainly due to the provision that Germany should pay one milliard gold marks on account within twenty-five days. It was commonly supposed at the time that Germany had resources abroad which would enable her to make this payment without a new strain upon her exchange; it may be doubted whether in fact it was possible for the German Government, even at this early date, to obtain effective possession of such foreign resources as were in the hands of private citizens, and in fact the necessary exchange had to be found over a period of some months, together with what was essential to cover earlier outstanding needs and Germany's current requirements.

In defence of the provision for an immediate cash payment it should be stated that the German Government had themselves offered such an immediate payment shortly before; they probably did so, however, against their better judgment, knowing that something had to be attempted even at the risk of aggravating the situation a little later, in face of a formal demand which had been made upon them by the Reparation Commission in March for the immediate payment of one milliard and for the submission of plans for the liquidation of a further 11 milliards, in execution of a provision in Treaty requiring the payment of 20 milliards before the 1st May, 1921.[1]

The value of the mark depreciated steadily, being

[1] *V. infra*, Chapter III. p. 50.

quoted to the dollar at an average of 62.30 in May 1921, 69.36 in June, 76.67 in July, 84.31 in August, 104.91 in September, and 150.20 in October.

In the following month the mark fell below 260 to the dollar, and the Reparation Commission visited Berlin in the hope that by personal negotiation on the spot they might be able to assist the German Government in its efforts to borrow the foreign currency to meet instalments due in January and February of 1922. These efforts were fruitless, and in December the German Government requested a postponement of the due dates for the instalments in question. Before a definite decision was taken on this request, the question was shifted to a broader terrain by the convocation of the Conference of Cannes. The Conference had practically concluded arrangements for a partial moratorium for the calendar year 1922, when M. Briand was deposed in favour of M. Poincaré, and the last hope of securing a final and reasonable settlement of reparations without recourse first being had to the illusory policy of force vanished with this change of Government. It did not prevent the grant of the partial moratorium, but it delayed it for some months; it was not until the 31st May that the arrangement whereby Germany's payments in 1922 should be confined to 720 million gold marks in cash, and a maximum of 1,450[1] million gold marks in kind, was confirmed.

[1] This total was a piece of evident window-dressing. It was sub-divided into 950 million for France and 500 million for the other participants in reparation. The French Government itself never expected to be able to order goods to more than half the value, and it was largely its own fault that it laid itself open to reproaches from the opposition for not taking full advantage of its opportunities. The deliveries to France in the year amounted to 209 million marks, of which coal and coke accounted for 167 millions; it is notorious that to some extent the poverty of the result must be laid at the door of the French industrialists.

The provisional moratorium, which was granted on condition that Germany carried out certain financial reforms, was obviously only a stop-gap; the German Government did not conceal its opinion that the reforms were not possible, in conjunction with even the reduced programme of payments, in the absence of a foreign loan. Moreover, everyone with the slightest scientific knowledge of the problem was aware that no lasting amelioration was possible in the absence of the basis for all reform – a scaling down of Germany's capital debt to a figure which the financial world deemed manageable; it was now abundantly evident that Germany's tottering credit was the kernel of the problem, and that Germany alone could not re-establish it.

In the hope that it would produce a solution of this aspect of the problem the Reparation Commission appointed a Committee of Bankers in April 1922 to study and report on the possibility of German loans abroad for the complete or partial repayment of the capital of the reparation debt, regard being had to Germany's obligations "under the Treaty of Versailles and in particular under the Schedule of Payments." The obscurity of the terms of reference, which is really contained in the words "regard being had," was promptly faced; the Committee inquired of the Commission whether the words meant that the existing obligations were unalterable, except in so far as they might from time to time be varied by the Commission under Article 234 of the Peace Treaty,[1] or

[1] The text of Article 234 runs as follows: "The Reparation Commission shall, after May 1, 1921, from time to time, consider the resources and capacity of Germany, and, after giving her representatives a just opportunity to be heard, shall have discretion to extend the date, and to modify the form of payments, such as are to be provided for in accordance with Article 233;

if the Committee was free to consider solutions which involved alterations in these arrangements.

The Commission decided by a majority in favour of the wider field of deliberation, but the French Delegate was in the minority, and the Committee explained in its report, dated the 10th June, 1922, that in these circumstances it could only confine itself to the narrow question whether, with things as they were, there was any possibility of foreign loans; the answer was in the negative and the Report stated in sufficiently unambiguous language that one of the essential conditions for any such financial operations in the future was the refixation of the capital debt.

The convocation of the Bankers' Committee had failed to advance matters and two events which shortly succeeded marked the inevitable advance to an utter breakdown of reparation as it was understood by the framers of the Treaty, and the approach to those forcible solutions which apparently had necessarily to be attempted before reason could again raise her voice. On the 24th June, Dr. Rathenau, the preacher of reconciliation and agreement on the basis of a possible but heavy German burden, was assassinated. The German people were coming, as clearly as M. Poincaré had come, for diametrically opposite reasons, to the conclusion that a

but not to cancel any part, except with the specific authority of the several Governments represented upon the Commission."

The question may be raised whether the original terms of reference were not already sufficiently wide; under the Treaty the Reparation Commission had the power, and no other body had such a power, and had in certain circumstances the duty, to reduce the capital debt if it could obtain the approval of the Governments. The fact that it could not exercise the power without such approval did not prevent it from, nor relieve it in the appropriate circumstances from the responsibility of, recommending a reduction. If the Commission had such a power and such a contingent responsibility, the Committee could plainly have made recommendations to assist the Commission in its exercise of them.

policy of agreement was unremunerative and impossible; Dr. Rathenau was murdered as the outstanding exponent of this policy and his disappearance was as harmful and as ominous as M. Poincaré's appearance. The murder was the last blow needed to start the headlong flight from the mark which destroyed the last chance remaining that the German engagements for 1922 might be punctually fulfilled, and that only realisable engagements for 1923 might be demanded.

The second event to which I refer above was the issue of the Balfour Note on inter-Allied debts. I shall discuss later the connection of inter-Allied debts and reparation, and endeavour to give reasons in support of the view that the issue of this Note must be regarded as one of the milestones on the road to the Ruhr. For the moment I will confine myself to quoting the following passage from the leading article of the *Temps* of 3rd August, 1922: "Mais, si moderée que puisse devenir en fait la réclamation britannique, le gouvernement français doit se mettre en mesure d'y faire face. Il n'y a qu'un moyen: c'est d'organiser – 'à regret' pourrions nous dire à notre tour – un système qui lui permette de recouvrir directement des sommes égales sur l'Allemagne. Car ces recouvrements prennent désormais, par la volonté de l'Angleterre, un caractère spécial et urgent que le Traité de Versailles n'avait pas prévu." It is important to recall that this note was issued just before an inter-Allied conference on reparation was to be opened in London.

The German rate of exchange to the dollar, having hovered round 290 with some appearance of steadiness from March to the end of the first week in June, proceeded steadily downwards, with a rate of progress

which threatened to become geometrical, as will be seen from the following table of monthly averages:

June, 1922	317
July	493
August	1,135
September	1,466
October	3,181
November	7,183
December	7,589

Towards the end of the year the German Government called in international experts[1] to advise them on the financial situation. While these experts presented majority and minority reports at the beginning of November, the essential recommendations were common to both of them: a complete moratorium until reparation payments could be effected out of a budget surplus and without creating an unfavourable balance of payments, a reconstruction of the capital debt, and foreign assistance. Within a week the German Government, basing itself on these reports, requested the Reparation Commission to fix Germany's liabilities at an amount which could be defrayed from the budget surplus, to grant a prolonged moratorium, and to assist the German Government to obtain a foreign banking credit for the stabilisation of the mark.

On the 9th December, the principal Allied Powers met in London to hold conversations preliminary to a fuller conference to be held in Brussels before the 15th January, the date by which the Reparation Commission had to pronounce on the request for a moratorium.

[1] Messrs. Brand, Cassel, Dubois, Jenks, Karmenka, Keynes, and Vissering.

Two days' conversation sufficed to make it clear that M. Poincaré would insist on two things:

(1) Whatever decision was taken, the occupation of Essen and Bochum was necessary.[1]

(2) Owing to the state of French finances, no part of the theoretical total due by Germany to France could be surrendered beyond that portion of the French debt to Great Britain which was remitted. France would not even face the cancellation of the "C" bonds.

It was evident that, in the time available for discussion, no agreement could be established, and it was agreed that conversations should be resumed in Paris on the 4th January.

On the 26th December the Reparation Commission, on the initiative of the French Delegation, acting at the instigation of the French Government, found the German Government in "voluntary default" on timber deliveries. The British delegate, who remarked that "since in the tenth year of the war, Troy fell to the stratagem of the wooden horse, history recorded no similar use of timber,"

[1] If M. Poincaré were not a past master in the art of unconscious humour it would be impossible to believe in the attribution to him of the following words: "He would begin by trying to obtain the goodwill of Germany by the pressure of the occupation of Essen and Bochum." *V.* Cmd. 1812, Stationery Office, 1923. And cf. "The Pious Editor's Creed";

> "I du believe whatever trash
> 'll keep the people in blindness,—
> Thet we the Mexicans can thrash
> Right into brotherly kindness,
> Thet bombshells, grape, an' powder 'n' ball
> Air good-will's strongest magnets,
> Thet peace, to make it stick at all,
> Must be druv in with bay'nets."

voted in a minority of one against the decision. The full discussion in the Reparation Commission on this question has been published,[1] and should be read in the light of the facts that (1) the German Government, in face of great difficulties, had substantially fulfilled the moratorium conditions of 1922; and (2) M. Poincaré was already determined, as appears from his statements in London, to occupy the Ruhr whatever happened.

In such circumstances the meeting which was fixed for the 4th January in Paris was little more than a decent funeral for the Entente, for it opened under conditions which foredoomed to failure all efforts to agree; M. Poincaré, who has the quality of obstinacy, went so far as to declare that agreement was possible if Mr. Bonar Law would, with bag and baggage, cross the ditch which separated them. In vain did Mr. Bonar Law insist that the one essential consideration was the re-establishment of Germany's credit with a view to the payment of reparation, that certain positive measures required to be taken to that end, and that all measures which conflicted therewith should be avoided. A British plan, which offered probably as much reparation as the Dawes Plan was destined to offer more than two years later, and which made concessions in Allied indebtedness which could not be repeated, if at all, for several years, was rejected without adequate examination, and certainly without considered criticism. The invasion of the Ruhr had been decided upon, and any hopes entertained that the disappearance

[1] *Report on the Work of the Reparation Commission from 1920 to 1922*, Stationery Office, 1922.

of Mr. Lloyd George from the scene of action, or at any rate from the seat of responsibility, would pave the way for a settlement were definitely abandoned ; it was clear that the obvious incompatibility of Mr. Lloyd George and M. Poincaré was not the real obstacle to a solution, as had at moments seemed probable, and that the dethronement of M. Poincaré, by the working out of his doctrine to a logical conclusion, at great risk to Europe, was an essential preliminary condition to peace.

The history of 1923 is the tragic purgation of the after-war spirit which would try to settle the world's most complicated financial and economic problem by methods of force, suggested by purely political reasoning. The details are unimportant; it is the history of Germany's economic exhaustion and disintegration, of further attempts to compass her political disintegration by the covert favour extended to separatist movements, of the tragic encouragement given to reactionary elements in Germany, of Germany's collapse and M. Poincaré's utter inability to take any advantage of the situation which it created, of Belgium's growing fear of the political results, of a growing foreboding in France that doom impended if some exit could not be found, and a growing realisation in the world at large, and most importantly in America, that in the essential interests of the whole human community some means must be found to extricate Europe from a situation which, if left untouched, could only be aggravated with the passage of every week, and finally, at an interval perhaps of years, but quite inevitably, would lead to war.

Throughout the year the British Government, in a series of notes addressed to its Allies, made every effort to

bring the question of reparation back to the economic plane. The correspondence is, however, interesting only psychologically; M. Poincaré, if open to conviction, had points of resemblance with the Scottish judge who expressed the same openness of mind, but had the frankness to add that he had never found the man able to convince him; his replies, for the most part a labyrinth of *ignoratio elenchi* and *petitio principii*, are chiefly remarkable for the child-like pleasure which they exhibit in debating points and *argumenta ad hominem*. As a scientist can reconstruct an extinct animal from one bone, so might the historian of the future find it possible to reconstruct, not only the character and influence of M. Poincaré, but almost the whole unhappy history of reparation, from one of M. Poincaré's replies of this period, in which he takes a British dispatch, paragraph by paragraph, and makes marginal comments in the style of the ex-Kaiser.

But events were to prove too strong even for M. Poincaré. German passive resistance, which had seemed to him to be mere perverse wickedness, and a coarse response to an invasion of German territory which was only intended to encourage Germany's *bonne volonté*, had ceased, and the political face of France was thereby saved at a price; Germany, by the "Micum" arrangements, was continuing to deliver coal to France and Belgium, but the Government could not finance the deliveries, and it was perfectly obvious that the coal-owners could only continue to bear the burden for a very short period, at the end of which the passive obedience which had succeeded passive resistance would in turn be succeeded by passive inability or even by the active but hopeless resistance of despair.

The Belgian Government had entered the Ruhr with

real reluctance, largely for political reasons, and had from the outset genuinely regarded the extended occupation of Germany as a passing episode. Indeed, a quasi-permanent occupation of the Ruhr basin with France as the senior partner was generally regarded in Belgium as a grave political menace. The Belgian Government had directed its attention to the construction of a new system which should supersede the temporary appeal to force, and had to that end prepared a series of technical notes on the methods by which reparation might be recovered, which contained some good directions on the making of bricks, but did nothing to indicate where the straw was to be obtained. These notes were, however, of immense value, firstly as an indication that Belgium was intent on a realistic, and not a political, reparation policy, and secondly as an invitation to public opinion from one of the Ruhr invaders to concentrate once more upon the economic aspects of the question.

The United States Government, through the mouth of Mr. Hughes, had publicly advocated an impartial, non-political inquiry into Germany's capacity to pay, and the British Government had strongly supported the suggestion. M. Poincaré had rejected it at the time, but towards the end of 1923, as a result of prolonged negotiations, two expert committees were set up: one, under the chairmanship of General Dawes, to study the means of balancing the German budget and stabilising German currency, and the other, under the chairmanship of Mr. McKenna, to consider the means of estimating the amount of German capital exported and of inducing its return.

The terms of reference, and the fact that the committee was nominally instituted by the Reparation Commission to

advise it, bear traces of the desire to make M. Poincaré's path easier. No one was formally bound by the findings of the Experts, though it was clear from the outset that no Government interested, neither the German Government nor any one of the Allied Governments, would be able to afford to reject its conclusions, more especially as American citizens, though in no sense representative of their Government, were full official members of both committees. There was no allusion in the terms of reference to Germany's capacity to pay, which M. Poincaré had quite rightly refused to attempt to estimate at a time when his actions had temporarily annihilated it; there was not even any allusion to reparation payments, but the amount which Germany would be called upon to pay was a capital question both for her budget and her currency, and was the main if not the only reason for the interest displayed by the Allies, the Reparation Commission, and the committee in these problems.

A new era in the history of the reparation question is thus opened, but before proceeding to explain what the Experts' Plan involved, and what it was intended to effect, it will perhaps be useful to examine a little more closely, but in general terms, the causes which were responsible for the lamentable and almost fatal failures of the years 1920–3.

CHAPTER III

THE CAUSES OF FAILURE

From some points of view it might be desirable to regard the events of the four years following the coming into force of the Treaty as "a record of disgraces best forgotten, a page fit to erase" from the history of reparation and international finance. But the problems of State indebtedness are not yet clearly solved; the reparation question was not settled by the Dawes Plan; and it is too early to feel sure that the Young Plan which has succeeded it represents the last word on the subject. In any case the Dawes Plan, its genesis, its aims, and its developments, are only intelligible in the light of the conditions from which it sprang, and the Young Plan is only intelligible in the light of its predecessor; a slight examination of the errors of the period in question, therefore, is perhaps not time wasted.

At the beginning of this study I have attempted to state briefly some of the pre-natal influences under which the Reparation Chapter of the Treaty was misbegotten. Subsequent events are in many respects merely the history of the developments of the constitutional defects that were inherent at birth, and of an environment in which the old evil influences persisted and made all healthy growth impossible. For four years the reparation problem was treated as a purely political problem, as it had been regarded by the framers of the Treaty; for almost as long,

the world at large – outside England, at any rate – was deluded with the fanciful figures of megalomania, and the unhappy history of the Sibylline Books was re-enacted before French eyes. Speaking in 1921, M. Theunis – one of those who yet knew better, saw further, and spoke more courageously than most – stated that "it might be estimated without excessive optimism that in five, six, seven years the total annuity payable by Germany would reach the figure of 6 milliard gold marks."[1] The words "*à payer*" might be defended on the ground that it meant "nominally due," and not necessarily "capable of being paid," but M. Theunis must have intended his audience to understand the latter, and must also have known that it meant the ultimate establishment by Germany of a favourable balance of payments of at least an equal amount. It would be interesting to know what figures excessive optimism would have suggested. One of the horrors of the period was that when public opinion had been so grossly misled as to the possibilities, it was a task of almost superhuman difficulty to deflate the popular imagination to a point where it would deal in practical figures without feeling that it had been betrayed, and that the reduction represented not so much a return to common sense as a price to be paid for German dishonesty and Allied weakness. People had been led to believe – almost on *credo quia impossibile* grounds – in an annuity of some 6 milliards; how could they be easily reconciled to a mere fraction of this sum? Once more "debamboozlement" was more difficult than "bamboozlement"; in dealing with his own people Mr. Lloyd George, having mesmerised them, knew the proper words and passes to restore them to their normal consciousness, but

[1] Quoted in the *Nation Belge* of 26th January, 1925.

the French people proved refractory and remained in a trance, as he learned to his consternation when the Conference of Cannes broke down and M. Poincaré came into his own.

It is perhaps fitting to consider at once the position of the Reparation Commission and its influence on the development of the problem, for there were not wanting those who felt that the Treaty was defective, that its maximum demands were excessive, and that its strict execution was impossible, but that it contained within itself adequate shock-absorbers, and the machinery for day-to-day readjustment. For those who so felt, the Reparation Commission was the most essential part of the machinery; its members were independent, they had large discretionary powers, some of them absolute and some of them subject to the concurrence of the Allied Governments, and there was much in the letter of the Treaty to encourage them to regard themselves as members of a judicial body, pledged to do justice as between victors and vanquished and so to interpret and execute the Treaty as to make it a workable instrument of economic restoration. Theoretically such an evolution may or may not have been possible; practically, it cannot be denied, the Reparation Commission played no such rôle.

What were the reasons for the Commission's failure to live up to the expectations of those who saw much mischief in the reparation clauses, and yet comforted themselves with the reflection that the powers of the Commission would enable it to remedy real defects? Failure it must be called, for there is no single paragraph in the Dawes Report which could not have been produced by the Commission itself, and there is nothing in the Treaty

which would have prevented that body from constructing the whole Experts' Plan *proprio motu* at a much earlier date. The short answer is that the Commission lacked the necessary authority.

The gravest blow to the authority of the Commission was struck when the United States failed to ratify the Treaty of Versailles and lost the right (or abdicated the duty) to be represented on the Commission. The United States negotiators had taken a prominent part in the framing of the Reparation Chapter of the Treaty and in important points their views had prevailed. The absence of a qualified American representative meant that the Commission was hamstrung from the start ; it is true that the United States Government sent official observers who were allowed all privileges of the powers properly represented except the right to vote, but it is no depreciation of the very real services rendered successively by Mr. Rathbone, Mr. Boyden, and Colonel Logan as unofficial observers to say that had they held official mandates, and been entitled to speak with all the weight and authority of the American Government and people behind them, they might, indeed would, have had a much profounder influence on the course of events between 1920 and 1924. Moreover, the non-participation of an American delegate meant a serious derangement of the balance of power in the Commission ; the Chairman of the Commission, who was of French nationality, had a casting vote *ex officio*, and this privilege, while more or less honorary where there are five entitled to vote, became of great importance when there were only four ; it meant that the French delegate had two votes whenever he required them unless he was in a minority of one. Nor can the

value of the casting vote be estimated by the number of occasions when it was actually used ; the knowledge that it could be used may often have affected voting and policies by the desire to be with the majority—that is, to vote with the French delegate whenever it appeared probable that he would have at least one supporter, and could make his view prevail.

The authority of the Reparation Commission, thus gravely impaired at the outset, was further weakened by the qualifications which some of the Governments represented sought in their delegates. Between the years 1920 and 1924 nine delegates in all sat on the Commission for France, Great Britain, Italy, and Belgium; of these nine, only two[1] had the necessary financial knowledge to qualify them to deal with the issues at stake; the others were either ex-politicians (or politicians, which is worse) and diplomats, whereas only financiers or judicial authorities should have been admitted as members of a body with the Commission's tasks and functions.

The inevitable result was that purely (or almost purely) economic problems continued to be treated as political, and individual delegates were far too ready to be guided by the political exigencies of their respective Governments. The fault rests with the Governments who appointed persons with the wrong qualifications and from the outset set themselves to circumscribe the independence of their delegates; there was no single interested Government which did not on one occasion or another attempt to

[1] M. Theunis and Sir John (now Lord) Bradbury – *quos honoris causa nomino*. It is neither national prejudice nor personal gratitude and esteem which leads me to state that the latter was the outstanding figure on the Commission; but after the withdrawal of M. Theunis he was isolated, and his voice was the voice of Cassandra.

encroach upon the prerogatives of the Commission, and it was frequently a cause for amazement that the Governments did not, on the contrary, take advantage of the Commission's Treaty independence by seeking shelter under it; it would apparently have been ordinary political perspicacity for the Governments to wash their hands of the business by allowing and encouraging the Commission to enunciate unpalatable truths and take unpopular measures which would have been fatal to any politician. One must not overlook the natural difficulty in recognising a body set above the State to deal with questions which reacted at every turn on the economic life, and therefore on the political life, of all countries in the world, and it may be that the Treaty conception of the Commission's position was unworkable; in fact, however, it was never tested, and the inevitableness of the course actually pursued can only be asserted on a theory of philosophic determinism.

Even so, the Governments, having discouraged the Reparation Commission from dealing radically with the problem, might themselves have faced facts and avoided some of their grosser errors. It was early realised in Britain that the full Treaty demand was preposterous, and there was some indication that the French were prepared at one time to be educated to reasonable figures, or at least to accept what would have appeared to them unreasonably low figures, more especially if a generous and final settlement of inter-Allied indebtedness had been offered.

While as between Governments it is perhaps "difficult to apportion the iniquity," a large part of the blame for the errors of the earlier stages must certainly be ascribed to Mr. Lloyd George. He at least knew that the evil to be

treated required a major operation, doubtful though it may be how far he realised the extent of the amputations necessary. He preferred in his periodical consultations with French Prime Ministers, and particularly with M. Briand, to consent to successive minor operations which did nothing but temporarily check the malady at the expense of enfeeblement to the organism. The French were led to make a series of concessions, each of which was of little value when radical remedies were required, and the cumulative effect of which was negligible; on each occasion the French people, with an illogicality from which even so logical a race is not immune, were genuinely persuaded that they were making the only sacrifice, an impression which was often seriously heightened by the complaints of interested individuals or hide-bound Tariff Reformers (it cannot only be Free Traders who deserve this constant epithet) in England that the payment of reparation meant the ruin of British trade. The net result was a profound distrust of British policy and a state of genuine and not unnatural bewilderment in the French mind.[1] A well-qualified interpreter of that mind, himself a Frenchman, once depicted French public opinion to me in this wise: "Mr. Lloyd George and M. Briand find themselves on the sixth floor, and Mr. Lloyd George at once finds the air too rarefied and suggests a descent to

[1] "For two years, in conference after conference, the two countries had reached agreement, amid misunderstandings, ambiguities, and sometimes even in obscurity. For the last two years the Allied conferences had separated, after having given birth to some new protocol with which everyone declared himself discontented, so that it had to be replaced by another. Perhaps, therefore, it would be better to-day to come to a point when they could confront their respective points of view and compare their ideas, seeing if they were irreconcilable or if means could not be found to reconcile them."–M. Poincaré, speaking on the 3rd January, 1923; *v.* Cmd. 1812, 1923, p. 121.

the fifth floor. After a short period on that level, the British Premier remarks: 'This is certainly a nice flat and the view from the windows is really very jolly; but have you seen the carpets on the fourth floor? They are much better and the furniture is much more attractive. Let's take the lift and go down one floor.' After a short enjoyment of the amenities of the fourth floor, Mr. Lloyd George again becomes restless: 'You know, I think that we really shall be better off on the third floor. It is true that we get more air up here, but there isn't much difference between the fourth and third, while the lower we go the less far we have to come up in the lift, and the better the heating is.' By this time Mr. Lloyd George's associates become restless and we French people are coming to the conclusion that we should like to make one move and know exactly when we can settle down; is this process intended to land us eventually on the first floor, in the concièrge's lodge – or even in the cellar?"

In his dealings with the French, Mr. Lloyd George was too subtle, and managed to create an atmosphere of dishonesty and chicane when he was really striving to be fair and honest; had either Mr. Bonar Law or Mr. Baldwin been in power in those earlier years the history of the reparation controversy might have been very different, and Europe might have been spared many of its economic troubles. They would have stated frankly and at once to what floor a descent had to be made; there can be no guarantee that they would have carried the French with them, but, had they failed, the French attempt to live in an uninhabitable flat would have taken place earlier and on a higher story, and the reconstruction of Europe would have been correspondingly

accelerated, for there can now be little reasonable doubt that if the occupation of the Ruhr had to be tried, it would have been a great advantage that the experiment should have been made early.

It must be admitted that the French had a good popular case against us, with some parts of which it is impossible for an inter-Allied observer not to sympathise. In the first place, if one man has lost eight houses out of sixteen and another man four out of twenty-four and it proves possible not to restore twelve, as had been hoped, but only six, it is difficult for the former to persuade himself that distributive justice is satisfied if he obtains four and the other two; every diminution in the amount of reparation available, unaccompanied by a variation in the proportion of distribution, accentuates the difference in the proportionate wealth which each party is left to enjoy, and the proportionate sacrifice of his original wealth which he is required to face.

In the second place, it would have been more than human for the French readily to admit the argument that the British need for reparation was as urgent as the French, that smokeless factory chimneys were as pressing a problem as destroyed factory chimneys and devastated regions. While the idea that the latter deserved priority was natural – in fact, it appeared to the popular mind that the priority had been reversed – Great Britain had taken the lion's share of the German colonies, had obtained far the largest part of the German merchant marine, had sequestrated enormous amounts of German property, and withdrawn large sums from Germany for the satisfaction of balances due for private debts through the machinery of the Clearing Office at a moment when advances were being

made to Germany to enable her to maintain coal deliveries; and finally, the surrender and destruction of the German fleet was equivalent, in the case of Great Britain, to the Rhine frontier, which had been denied her, in the case of France.

I am not concerned either to endorse or to refute these popular arguments, but rather to indicate their presence as an additional irritant. In my opinion, however, the most serious complaint which was made against our own Government's conduct relates to our treatment of inter-Allied indebtedness, and must be acknowledged well founded. The influence of this question on reparation would be difficult to exaggerate, and deserves somewhat closer examination. Let us confront the views, partly explicit and partly implicit, of the French and British Governments on this question as developed in the years under examination.

The French standpoint – and it can be found almost thus expressed in M. Poincaré's correspondence with the British Government – was as follows. It is impossible to divorce the consideration of reparation and inter-Allied indebtedness, for our capacity to pay the latter is strictly dependent on the amount we receive from the former. Until we know the amounts we must pay to America and Great Britain we do not know what sacrifices of our reparation claim we can support and what concessions we can offer to Germany. It was always understood that the money required for the repayment of debt would be obtained from Germany; during the war it was always intended to make Germany responsible for the costs of the war which she provoked, and when our claim was limited to something less at the time the Treaty was negotiated,

the sums contemplated would still have been sufficient for the reparation of material damage and the repayment of debt. The restoration of the devastated regions has a strong moral claim for precedence over, firstly, other forms of reparation, and secondly, over the liquidation of Allied debts. Any further limitation of the amount to be demanded from Germany creates a deficit for us, and therefore every sacrifice of reparation which we make must be off-set by a corresponding surrender of claims upon us; conversely "*moins on nous demandera, plus l'Allemagne sera déchargé.*"

The English standpoint may be summarised as follows. The study and solution of the reparation problem should be undertaken in isolation from, for it has no direct relation to, the problem of inter-Allied indebtedness. We desire that the maximum sum which Germany can pay shall be paid, and should so desire even if there were no Allied debts to take into account. Plainly this maximum cannot be increased in order to take account of debt demands. We demand no sacrifices which can be avoided, and we desire no concessions to Germany. All we ask is that the sum to be demanded of Germany should be reduced to, but not below, a figure which she can pay, and we are convinced that to keep alive a higher demand can only result in our both obtaining less than is possible. The two subjects can therefore be divorced, and in the common interest the first step to be taken is to settle German reparation, for this is an active difficulty in Europe, while the question of Allied debts is not at the moment disturbing the world's economic equilibrium. The sooner we settle the reparation question the more we shall obtain, and then we can settle down to discuss debts on *their* merits.

Thus stated, the superior logic of the British standpoint is, to my mind, unquestionable. Had the British continued to maintain the case by such reasoning their position would have been unassailable. The French insistence on inter-Allied debts inevitably had the appearance of blackmail. The continuance and even the aggravation of chaotic economic conditions for which, in British eyes, relatively simple remedies could be found, was more or less openly threatened unless we were willing not only to share in the sacrifice of reparation which the situation required, but also to make a free gift of our claims upon our Allies. In the circumstances it was not surprising that the British Government should have refused to abandon the sole arm with which it could bring pressure upon its Allies to pursue a sane economic policy, more especially when we were debtors to America as well as creditors of the other Allies, and our own creditor resolutely refused to admit any correlation of the two problems.[1]

Unfortunately, however, the official British standpoint was very significantly modified with time, and the modification is crystallised in the Balfour Note[2] of the 1st August, 1922. The gist of this note is that since the United States Government have asked Great Britain to pay interest accrued on her debt since 1919, and to arrange for the liquidation of the capital in sixty-two years, the British Government must serve notice on its Allies that it must collect from Germany and them together enough to pay the amounts due to the United States. The intellectual *volte face* involved is so striking that it is not surprising that

[1] This is not the place to examine to what extent a more far-seeing American policy could have produced an earlier solution of the problem.

[2] Comd. 1737, 1922.

the undertaking, now first publicly and authoritatively offered, not in any circumstance to demand more than was thus required, was scarcely felt as a generous concession. The root evil of the note is that it might have been penned by M. Poincaré himself, for it adopts in almost blatant fashion the French reasoning above described: "His Majesty's Government . . . desire to explain that the amount of interest and repayment for which they ask depends not so much on what France and the Allies owe to Great Britain as on what Great Britain has to pay America!" There is no hint that it depends in any degree on what France and the other Allies can afford to pay, and it was bitterly realised in France that the capacity to pay only entered into the problem thus expressed in that some of the Allies, e.g. Russia, would pay nothing, and that France's share would be proportionately greater. There is no hint of any examination either of the collective or of the individual capacity of the Allies to supply the sums required by Great Britain. Why had the British Government found such difficulty in appreciating the French argument that the amount of interest and repayment from Germany for which they asked depended not so much on what Germany owed to France, but on what reconstruction would cost and on what France had to pay to Great Britain and America?

There is an unexpressed and unexamined premiss in the Balfour Note: that the maximum amount which Great Britain, on the principles therein enunciated, will claim, will not exceed 22½ per cent.[1] of the amounts obtained from Germany, together with a balance which is demonstrably within the capacity of Allied debtors. Is, or in any case was, this premiss any less vulnerable than the

[1] I.e., the British share of reparation receipts.

corresponding French one that Germany could pay all that was required for reconstruction and for Allied debt payments? Further, was there not latent in the note a principle, afterwards publicly avowed and repugnant to common sense, that the less Germany could pay, or was called upon to pay, and the less therefore France received, the more France would have to pay? In other words, that the less France's capacity the larger would be the demands made upon it?

The ill effects of the Balfour Note – issued, as I have previously observed, immediately before an inter-Allied conference on reparation – on public opinion in France were almost immediately visible. It did more than anything to harden feeling in favour of violent measures even in circles which had for months been publicly hostile to the project for the occupation of the Ruhr; and such projects obtained daily adherents until the late M. Robert de Jouvenel was almost the only French journalist of repute who consistently fought for reasonable and unimpassioned solutions; even the late M. Philippe Millet and his organ, *L'Europe Nouvelle*, crossed into the opposite camp. It was not surprising, therefore, that the proposals made by Mr. Bonar Law in 1923, which departed to some extent from the principle of the Balfour Note, fell upon the ears of unwilling hearers; they were too late; M. Poincaré had long made up his mind to occupy the Ruhr, for reasons which a series of *discours dominicaux* never succeeded in explaining, and a large part of the French people had in the previous six months come to the conclusion that, other methods having failed, they would acquiesce in a new experiment.

Once the Ruhr had been occupied, the difficulties

of arriving at any early settlement of inter-Allied indebtedness were enormously magnified, and were bound to become almost insuperable. The occupation was widely regarded in England as a crime, a crime against international law of the same nature as the invasion of Belgium, and to be differentiated therefrom only by the fact that in the two cases the enormity of the apparent[1] consequences brooked no comparison. It is true that the British had been associated in 1921 in the occupation of additional German territory, but nominally and technically at least that extension was a sanction for German default in carrying out the disarmament provisions of the Treaty, and was not patently inappropriate or illegal, while only a casuist could argue that there was anything in the Treaty which justified the Allies in invading unoccupied territory in the pursuit of reparation claims. But those who were indifferent to the moral aspect of the question had other and perfectly sufficient reasons for anger and hardening of the hearts. The common, the almost universal, opinion in Great Britain was that the occupation of the Ruhr would reduce reparation receipts. By action which we disapproved on legal and practical – if not on moral – grounds, our own income from Germany was being diminished; how could the British taxpayer be called upon not only to pocket this loss, but to make an even more generous offer to Allied debtors? A further concession would have appeared like payment levied by blackmail, and in such circumstances the principle of the Balfour Note could almost reasonably be defended; France

[1] I use the word "apparent" deliberately; it is unfortunately still too early to foresee the ultimate consequences of the natural revival of hate caused in Germany by M. Poincaré's attempt to stimulate their *bonne volonté*.

would be called upon herself to make up the diminution in German payments of which she was considered to be the direct cause. In June 1923 the British Government made the first payment to the United States in virtue of the arrangement for funding the British war debts shortly before negotiated by Mr. Baldwin, and public opinion hardened further against concessions; the man in the street in England came to talk very much like the man in the street in the United States, and complained that he was paying high taxes because the French would not pay their debts; he came to talk about France very much as the French man in the street talked about Germany, and indignantly inquired why, if the French could find money for this or for that, they could not find money to pay their debt – and in general the ungenerous reign of unreason was advanced.

In the preceding part of this chapter attention has been drawn to what appear to me to be serious faults committed by the Governments in the practical management of the reparation problem. It is perhaps worth while to examine briefly the underlying misconceptions and mental contradictions which serve to explain the practical errors. These misconceptions and contradictions were widespread and popular; they were largely shared by the Governments of the time, which, when they did not share them, were often the slaves, and in some cases the too ready slaves, of public opinion.

(1) There was, particularly in France, a constant, if generally latent, contradiction between the desire for reparation and the desire for security, interpreted as obtainable by the perpetual weakness of Germany.

Popular opinion was often unconscious that any contradiction was present; some sections of opinion which were conscious of the contradiction were unable to effect a choice; and it must be admitted that other sections, best represented by *L'Action Française*,[1] frankly preached the political disintegration and economic ruin of Germany in deliberate preference to a policy which would make the payment of reparation possible. It was perhaps no great wonder that the policy pursued by the French Government nearly destroyed reparation and just failed to render the problem of security insoluble.

It was half realised that a solvent Germany meant an economically strong Germany, and that economic strength meant political strength; the dominant tendency was illogically to press all claims against Germany to a point where they could not humanly be met, with the object of maintaining her in a condition of weakness. In other words, France was under the domination of fear, which distorted her judgment on, and her reaction to, a question which should have been regarded unemotionally. The fear, though to English minds it seemed excessively exaggerated (in 1920 I heard well-informed and educated Frenchmen prophesying an attack by Germany within five years of the ratification of the Treaty), was not unnatural, and the British people incurred some share of responsibility in the matter when they refused, on the defection of the United States, to guarantee France against aggression. But whether it was natural or not, it cannot seriously be doubted that this haunting fear was the worst of all counsellors, and frequently gave rise to political actions, such

[1] Which hailed the murder of Rathenau with the exultant cry of "One less!"

as support of the abortive anti-Separatist movement in the Rhineland which followed the invasion of the Ruhr, which were inimical to, or inconsistent with, the payment of reparation. From many points of view, sometimes evident, sometimes obscure, the problems of security and reparation were Siamese-twin problems.

It may be doubted whether the invasion of the Ruhr itself would ever have taken place if these twin problems had been clearly distinguished in the French mind. At any rate, there was one school of thought in France which at once defended the occupation and fought later against evacuation on security grounds pure and simple; and the adherents of this school, when the Germans resisted the invasion, albeit passively, hailed the resistance as proof that the occupation was a necessary act of self-defence – an offensive defensive action. This French operation inevitably produced a certain reaction, which was then advanced as the justification, and indeed the cause, of the action.[1] The greatest danger of the occupation from the outset was that it would destroy reparation, while aggravating the question of security, and that M. Poincaré would then justify a permanent occupation (for which he had already paved the way by a declaration that he would not evacuate the Ruhr until reparation – *scilicet*, 132 milliard gold marks – had been paid) by the plea that reparation having disappeared, security, as he interpreted it, must be made doubly secure; much like the man who, convicted of the murder of his father and mother, pleaded for mercy on the ground that he was an orphan.

Much the same obstacle to reasonable action was to be

[1] "Cet animal est très méchant; quand on l'attaque, il se défend."

discovered in British popular beliefs, the difference being that while the French most feared Germany's political re-establishment, the British most feared her economic and commercial re-establishment. The fear of German trade competition and the desire for German payments were continually at war with each other; the taxpayer desired relief through German payments, and the British (or French manufacturers) desired protection against German exports, which could not but be stimulated by the effective enforcement of reparation claims. The climax was attained in England, when the *Daily Mail*, that perfect reflector of the average unthinking mind, immediately after a campaign for the lifting of hats in honour of France's courage and foresight in invading the Ruhr, led an even more furious and an equally unsuccessful campaign against the loan to Germany which formed an essential part of the Dawes Plan. In France the best manifestation of the contradiction was to be found in the general opposition to the payment of reparation by means of deliveries in kind of goods which could be produced in France. The most striking instance of this opposition occurred during the first year of the operation of the Dawes plan, when a deputation waited upon the French Minister of Public Works to draw his attention to the disturbing repercussion on French industry of an order for rolling-stock placed under the Experts' Plan; in his reply, the Minister seems to have set himself a conundrum – "When is a delivery in kind not a delivery in kind?" – and to have answered for himself – "When it is the realisation of a credit in waggons under the Wiesbaden Agreement"[1]; but it is significant

[1] A special reparation agreement negotiated by M. Loucheur and Herr Rathenau in October 1921.

that he also promised to behave himself for the future as regards rolling-stock and engines, and to strive to obtain under the Experts' Plan German products and raw materials which are generally wanting in France.[1]

A general wave of Protection, in great part the product of post-war nationalism, which was present in almost all countries, was reinforced in the Allied countries by the strong desire to be protected against the competition of a debtor whose competitive powers were being artificially stimulated by the collection of the debt, and the necessary effect of the two currents could only be to deflect German exports to countries where they would compete with Allied exporters rather than with manufacturers for the home market; the battle-ground was merely displaced, but the intensity of the conflict was not diminished.

The only country which made a ready and profitable use of the facilities for obtaining deliveries in kind was Serbia, which in the five years from 1920–4 was debited with 250 million marks as compared with France's debit, with ten times as big a claim on German payments, of 837 million marks.[2]

(2) A second contradiction was the desire for a daily diet of golden eggs and roast goose combined. The framers of the Treaty had themselves succumbed to this desire, and once again the events of the succeeding years merely developed a process which it had set in motion at Versailles. Either one of two possible policies would have been defensible: the Allies might have stripped Germany of all her transferable wealth and, having thus weakened her for a generation,

[1] V. *La Journée Industrielle* of the 24th May, 1925.

[2] The figures cover the period from the 10th Jan., 1920 to the 31st Aug., 1924, and are exclusive in the case of France of enforced deliveries in the Ruhr valued at 340 million marks.

been content to make no drafts, or inappreciable drafts, on her future; they might, on the other hand, have nursed her earning capacity and saddled it with a substantial annual tribute for one or two generations. There is much to be said on economic and political grounds against either procedure; there is everything to be said against an attempt to combine both.

The Treaty had stripped Germany of her foreign possessions and of such of her foreign investments as had not already been lost by war; it compelled also the surrender of her merchant fleet, and it deprived her of valuable sources of raw material. All her foreign connections, which had been temporarily interrupted during the war, were now severed: in a word, the tools which she required for work as a big industrial and exporting power were destroyed, and unless she could regain her place as an exporting power the payment of an annual tribute to the Allies was impossible, and the demand for it a sorry jest or a political excuse for further measures of duress.

At the same time the Treaty made economic demands upon Germany's current resources under Article 235, which enjoined payments before the 1st May, 1921, of a value of 20 milliard marks. It is true that various deductions (including the value, for instance, of the merchant fleet) fell to be made from this sum, but, even so, Germany was in default, when the moment came, to the tune of 12 out of the 20 milliards,[1] and there is probably none who would now be so bold as to contend that in all the circumstances it was possible for Germany to

[1] The actual cash payments available for distribution to the Allies amounted, of course, to only a fraction of 8 milliards, and were, in fact, barely sufficient to cover the costs of the Armies of Occupation, exclusive of the American Army.

have reduced the deficit by as much as one milliard.

Popular opinion really believed in the possibility of these vast and speedy payments; in France the belief was fostered by a vicious financial policy which set up a special budget for reconstruction, made no attempt to raise the money therefor, by taxation or long-term loans, but was content to inscribe the sum as recoverable from Germany. The pressure to obtain large immediate payments was undoubtedly intelligible, but the incompatibility of such payments with any ordered system of possible annual payments on a considerable scale was never realised.

The natural pressure was fortuitously increased, in rather peculiar and indirect fashion, by what was known as the "Belgian Priority," or the agreement by which the payment of 2 milliard gold marks to Belgium was made a first charge on all income from Germany, after payment of the costs of occupation, which was the first of all charges. The Belgian priority had not been liquidated when the Experts' Plan came into force, thanks in part to the enormity of army costs, and in part to special arrangements whereby the value of deliveries in kind was not paid in cash to Belgium by the recipient countries. Belgian mentality is very different from French mentality, and Belgian Governments gave many indications of their desire to adopt a realistic reparation policy and support the British in their efforts to treat the reparation question on a strictly business footing; but Belgian policy was, in the writer's belief, constantly, if for the most part unconsciously, deflected, and Belgian judgment distorted by the desire to obtain at any rate these 2 milliards of cash and to let the further credit go – or at any rate look after itself. Had the Belgian priority never been granted, or,

being granted, had it been liquidated at an early date, the history of reparation would have been very different: France would have been in absolute isolation, the Reparation Commission would not have been used for political ends, and the Ruhr would probably never have been invaded.

Fundamentally, the question was one of credit. Germany's transferable capital had been either destroyed or abstracted; to make her fixed capital interest-bearing it was necessary that her credit should be restored, and for that purpose a breathing-space, which was only granted too late and was then unduly curtailed, was indispensable. The French people – again quite naturally – were given to contrasting the speed of their own indemnity payments after 1870 with the dilatoriness and defaults of Germany, without realising that the difference between the two cases, just in respect of this question of credit, was vital. France was enabled to pay her indemnity after a comparatively short and restricted war because her foreign credit was intact and the world believed in her capacity to pay. In the more modern instance, the world did not believe in Germany's capacity to pay the sums demanded, and, when it said that a reduction of these sums was the prior condition of the re-establishment of Germany's credit, M. Poincaré vetoed all discussion and broke up the Bankers' Committee.

(3) It is almost unnecessary to refer to the constant neglect of the incontestable fact that Germany could pay no reparation annuities except by establishing a surplus of exports and services over imports and services received. Plan after plan was put forward officially and unofficially, which, through neglect of this proviso, deserved not a minute's consideration; they showed how Germany could

provide marks, without showing how they could be transferred; or they prescribed payments in other forms than cash in the erroneous belief that such payments did not involve the German exchange, or could be made indefinitely with an adverse balance of payments. True, an uneasy perception of the truth existed, but the public mind eluded its consequences and succeeded in stifling it, so that it was not allowed to rise above the threshold of consciousness. At times the cry arose that Germany might not at the moment be paying her own way, but that she might make substantial capital payments to aid the Allies in their capital reconstruction, and the confusion indicated in the last section again emerged. At no time between 1920 and 1924 did transferable capital exist in Germany of an amount large enough to pay one year's annuity, unless it could have been pledged to the foreigner, who was unwilling to allow the necessary credit, but many popular journalists wrote as if Germany could be expected to deplete her capital resources year after year to pay interest on a debt without liquidating one penny of the capital.

Such ideas were supported by wild estimates of the amount of German wealth abroad, and M. Poincaré was the foremost advocate of plans for tapping these hidden reserves. To lay this particular bogey and to provide bait to induce M. Poincaré to consent to an impartial examination of the German finances a second Committee of Experts was set up, under the chairmanship of Mr. McKenna, at the same time as the Dawes Committee, to inquire into the amount of German exported capital and to consider the means of bringing it back to Germany. This Committee was, of course, little more than a ghost-laying expedition under a leader of consummate astuteness

and ability. The answer to the second part of its inquiry was a foregone conclusion; the only way to repatriate capital was to remove the causes of the flight – that was to say, to stabilise the German currency and to balance the German budget; the way to achieve those ends was to take the advice of the Dawes Committee. As regards the first part of the inquiry, the Committee found that German property of all kinds abroad at the end of 1923 was approximately 6¾ milliards, to which had to be added 1 milliard 200 millions for foreign currency in Germany, but from which a roughly equal amount had to be deducted for foreign property in Germany. If this figure is contrasted with the usual estimate of 28 milliards as representing German assets abroad in 1914, if it is mentioned that the 1923 amount included all assets abroad, including illiquid property and the liquid capital necessary for a large export trade, the hollowness of the campaign for payments from this source is transparent. That Germany's assets abroad exceeded the amount required for the legitimate purposes of foreign trade denoted the weakening of Germany's economic fabric, and its return to German purposes was essential to that economic rehabilitation without which the exaction of reparation was an idle dream – when it was not a grim pleasantry. The history of subsequent years showed that, so far from having foreign assets to spare, Germany had to borrow large sums abroad to replenish the working capital which had disappeared through inflation.

But the popular mind – once more embodied in these matters by M. Poincaré – regarded German poverty as a legend. Was not Germany working at feverish pressure with no unemployment? Was she not exporting at prices

at which no one else could afford to sell? Was there any limit to the amount of money in Germany? Was not Germany spending large sums in the development of internal capital works? And was there not the most glaring evidence, open to the eyes of any visitor to Berlin, of the grossest private extravagance in the German people?

It was undoubtedly difficult to realise that these were signs, not of health and strength, but of a wasting sickness, likely to end in paralysis of the economic organism. It was difficult to believe that colossal mark expenditure was no indication that Germany had transferable wealth; that the fact that Germany could build more railways and construct new canals was no ground for supposing that she could find foreign currency for reparation payments if her currency was depreciated by excessive demands and if her exports and imports exhibited an ever-increasing gap in favour of the latter. German labour could, within limits, have been diverted to the construction of railways and canals in France, but this was one form of reparation which, wisely or unwisely, was ruled out of court.

As to private extravagance, it undoubtedly did Germany's cause harm, and falsified the real picture of Germany's condition. But a little reflection suffices to show that the absence of blatant extravagance in such an age would have been unnatural, as well as probably without parallel. In the first place, the motive for saving, as has often been pointed out, was destroyed in a vertiginous currency depreciation; money received one night was worth a fraction next day of the value when received, and therefore money existed, not to be saved in whole or in part for one hour, but to be turned into commodities and real values. In the second place, the *débâcle* of the currency

involved probably the most terrific redistribution and maldistribution of wealth in history; those who had never had money, and now came by large amounts of it with disproportionate ease, spent it with corresponding swiftness.

Finally, as regards deceptive outward appearances, it must be remembered that foreign visitors naturally saw the evidence of wealth, which was openly displayed, and as naturally did not see the evidence of poverty, which was below the surface. The new rich are proverbially flaunting; the new poor just as certainly seek obscurity and shelter from the public eye.

(4) Much time might have been saved and much waste and suffering avoided if certain fundamental principles, rather political or psychological than economic, had found general acceptance.

The most important of these is that what the recipients of reparation require, unless their requirements are demonstrably below what is possible, is an irrelevant factor; that the amounts exacted must be based upon capacity of payment; and, most importantly of all, that it is useless and self-defeating to press claims up to the limit of seeming capacity. The payment of large international claims rests upon confidence, and primarily on the confidence (as well as on the goodwill) of the payer; his confidence must be based upon the confidence that others have in his ability and willingness to pay – in other words, upon his credit. It follows that any claim upon Germany had to be for such an amount as, in the first place, Germany, and, in the second place, the money markets of the world, believed to represent a possible burden. If Germany did not genuinely believe the claim to be within her powers to liquidate in the life of a generation, her people could not

be expected to make the sacrifice which even a moderate demand must involve. If the world in general did not believe the payment demanded to be possible, and related to her capacity, *ipso facto* the claim was made impossible, for her capacity was nil without credit, and credit would be withheld when a debt thought, rightly or wrongly, to be impossible was a first charge upon all Germany's assets.

It follows almost necessarily in the second place that a claim, to be successfully pursued, must not only be pitched below the accepted maximum capacity, but that future events will almost certainly prove that the current view of maximum capacity was unduly pessimistic, and that after the event the recipients of reparation will regret that they had not demanded more, while the *jusqu'au boutistes* will claim that their extravagant demands have been proved possible. The Germans regretted, when France had paid her indemnity after the Franco-Prussian War, that they had not imposed heavier burdens; it is at least arguable that if they had done so they would have in fact obtained less.[1] The givers of credit are apt to be conservative, and like to have substantial margins; if they think x possible, it is quite probable that $x + y$ would be possible *if they could be persuaded that it was*; but so long as they are required to give credit to provide means of paying x, and so long as they cannot be persuaded that the payment of a larger sum is practicable, it is not practicable, and cannot by any future events be proved to have been practicable. Further, the payment of even a moderate sum will call forth energies which will have favourable reactions upon national development, and stimulate progress; this

[1] In 1817, Wellington agreed to a reparation settlement giving the Allies much less than they were entitled to, because "the sacrifice was necessary and we should have got nothing if we had not made it."

again serves after the event to make the moderate claim seem immoderately low.

It was an attempt to avoid or to ignore this seemingly inherent difficulty which imbued M. Poincaré with so strong a distaste for the words "capacity of payment"; "the capacity of a State," as he remarked in one of his letters to the British Government, "is essentially variable, and to determine it once and for all is an economic defiance of sense." The defiance of sense, economic, political, or psychological, consisted in the struggle to obtain under pressure all that this variable capacity and its probable development in the future could be made to provide; at the time when he wrote the above words it is true that M. Poincaré had reduced Germany's present capacity to a minus quantity, and had completed a process of economic disintegration in Germany which made any attempt to estimate her future capacity hopeless on any basis. Nevertheless, though the Dawes Plan did not directly deal with Germany's capacity, this question remained at the root of the reparation problem, and the Experts were aware of it; they could not settle the question, but hoped to have provided data by which it could be settled at a future date.

Another fundamental principle, flouted by all Governments at Versailles, advocated thereafter spasmodically by British Governments and consistently by informed British opinion, but inoperative until the Experts reported, was that a voluntary engagement by Germany to pay a given sum was worth far more than a demand for a larger sum imposed upon Germany by force. In the case of a voluntary engagement, sanctions would be intelligible, and probably effective, if Germany had not in part overestimated her own capacity; in actual practice they were

a boomerang; it is no good forcing a man or a nation to undertake the impossible under a threat of death, and then cutting off his limbs to stimulate his goodwill to fulfil his impossible obligation.

Retrospectively, one may wonder whether the *fons et origo mali* is not to be found in the original acceptance by Germany of the Treaty of Versailles under protest at the pistol's point; one is tempted to think that nothing worse could have befallen Germany, and that in the long run it would have been advantageous to those interested in the recovery of reparation if the Treaty had not been signed and the Allies had been left to deal with a nation passively resisting the impossible; facts would sooner have been faced and illusions sooner shed. The answer would appear to be that Germany had no real alternative; had the Central Government not accepted the Treaty, various constituent States, under the pressure of imminent starvation, would have made peace separately, and Germany as a nation and economic and political unity would have ceased to exist.

. . . . . .

In the above I have freely criticised the administration of the reparation problem by the Allied Powers, and have attributed to French actions and opinions in particular much of the ills from which Europe suffered through failure to solve the problem between 1920 and 1924. In this connection I should like to make two remarks. In the first place, I am perfectly aware that voices were raised in France in favour of reasonable behaviour, but they cried in the wilderness, and the owners of them have criticised the French Government in much stronger terms than I

should care to use.[1] In the second place I have laid myself open to the accusation that I have whitewashed Germany. To such an accusation I could only reply that I cannot conscientiously saddle Germany in my own mind with an appreciable share of responsibility for the errors of these years. German Governments made mistakes, as was natural in the case of a people politically unschooled, they administered their finances badly, and individuals exploited for their own ends the faults of Governments and the distress of the Commonwealth. But to my mind the theory of a voluntary and systematic national bankruptcy is a silly legend, and the avoidance of errors really committed by Germany would not have availed to obviate the economic disasters that befell; the only benefit that could have ensued would have been that the crisis would have been precipitated earlier. All impartial observers are agreed that in the early days the German Government and the majority of the German people were anxious to collaborate with the victors and do their best to liquidate their burdens; but this state of mind could not long survive when every effort of fulfilment was accepted in the Allied camp as proof that with goodwill twice as much might have been performed. The severest judgment which could legitimately be passed on Germany would be that, faced with an impossible task, they made no superhuman efforts to postpone inevitable failure.

[1] See, for instance, *La Victoire*, by Fabre-Luce, which was, however, published almost too late to affect public opinion on this particular issue of Victory. As an instance of a sober and objective treatment of the problem of reparation before it was well understood in France, I would cite the brilliant articles, signed "Lycurgue," which appeared in *L'Europe Nouvelle* between July 1922 and February 1923, and were afterwards reprinted in pamphlet form. At this date I am probably revealing no secret in ascribing the honour of these articles to M. Bergery, who was at the time an Assistant to the General Secretary of the Reparation Commission, and afterwards lent M. Herriot powerful aid in securing the adoption of the Experts' Report.

CHAPTER IV

THE DAWES PLAN AND ITS PURPOSE

I

It is desirable, before entering upon a consideration of the Dawes Plan, its making, and its purpose, to take a glance at the conditions which prevailed at the time the Experts met, and formed the background to their plan.

In Germany the mark had run its course; the old currency had become valueless, or at any rate its value could only be reckoned in astronomical figures; in the process of its deterioration, German savings had been destroyed or converted into fixed capital or consumable goods; and the depreciation brought in its train a political and social deterioration to some features of which reference has already been made, and which threatened, if not speedily treated, to create an infectious plague spot at one of Europe's most vital and vulnerable points.

For the moment the currency was being maintained in precarious stability by the introduction of the rentenmark, which was circulating in Germany alongside the old mark and was in practice interchangeable with it at a fixed rate. The rentenmark was, however, a purely internal currency, and, secured on land, it had no liquid backing. Its success was largely psychological; it was successfully maintained, thanks to savage measures for restricting credit, long enough to produce the popular illusion that

it was stable, and the appointment of the Dawes Committee served to confirm the popular confidence necessary to keep it going. But there can be no doubt that if the Dawes Plan had not been accepted the rentenmark would have speedily followed the same course as the old currency; the amount of currency could not long be so severely restricted (the total circulation at the end of 1923 amounted to only $2\frac{1}{4}$ milliards in gold as against 6 in 1913), while any increase was, on the other hand, bound to weaken confidence and arouse fears of a renewed inflation. There was, indeed, an anxious moment during the life of the Committee when it was feared that the *dégringolade* had already started, and public alarm was only allayed by the issue by the Dawes Committee of a communiqué expressing their own confidence. Had a new process of depreciation been set in motion, the difficulties of the Experts would have been multiplied many times; they would have been dealing with elements which changed as they studied them, instead of with a morbid state which was at least temporarily arrested.

Germany's budget was not merely unbalanced; it had practically ceased to exist. No reasonable budgeting was remotely possible when taxes were worth, at the time of their assessment, a fraction of their value at the time of imposition, and at the time of their collection a fraction of their value at the time of assessment; while, on the other side, expenditure, though it lagged, with prices, behind the depreciation, was daily increased to take account of it. The raising of revenue was one of those nightmare pursuits where the muscles of the pursuer refuse to respond to an agonising stimulus; financial administration

was desperate until some firm currency basis could be supplied.

A severe economic crisis caused by the temporary stabilisation of the mark, the high prices which ensued and deprived Germany of her Pyrrhic advantage in export, a crisis which was at some time or other inevitable, but was greatly aggravated by the occupation of the Ruhr, was in full swing. The resultant unemployment was alarming; already at the beginning of December 1923 there were nearly 2 million unemployed and $1\frac{3}{4}$ million short-time workers in unoccupied Germany, and it was estimated that there were over 2 million additional unemployed in occupied territory.

Large and important tracts of German territory were for all practical purposes withdrawn from German sovereignty; in the legally and illegally occupied territory Germany's writ no longer ran; not only was her political but also her fiscal authority destroyed. Taxes were not being collected for the German Treasury, and a separate customs administration, which was often shamelessly run in the interest of French exporters, was installed.

Certain reparation deliveries were being continued, but at the expense of the industrial interests which made them, and coal deliveries in particular were being financed with great difficulty by the coal producers. It was obvious to everyone except M. Poincaré that the system must soon break down, and France and Belgium become responsible for social order and a minimum of social well-being in an industrial area where the wheels of industry would cease to turn.

As a result of all this, and in aggravation of it, the profoundest pessimism reigned in Germany. The population

had come to regard salvation as unattainable, and the restoration of that minimum of confidence necessary to give the first impetus was the most difficult preliminary condition of any attempt to produce order out of chaos.

Conditions were superficially better, but in reality profoundly dangerous, in France. The energies of the nation had been dissipated in an effort to extract blood from a stone. A costly experiment in the collection of reparation had produced little if any net profit, if the indirect losses are taken into account; a continuation of the experiment was bound to result, sooner rather than later, in heavy direct loss. The ardour of the pursuit of the impossible had served a little longer to conceal the rottenness of French finances, and desperate expedients maintained with growing difficulty an appearance of soundness. But the French budget was still unbalanced; French currency had slowly and steadily depreciated; it was around 64 frs. to £1 at the end of 1922, and twenty points lower a year later. Confidence in it was disappearing at home and abroad, and any crisis or determined speculative attack was bound to precipitate a further fall; in fact, a combination of internal and external distrust was responsible for a spectacular fall in March, while the Committee was still sitting, and only loans from Messrs. J. P. Morgan and Messrs. Lazard served to check the fall before it became catastrophic. There can be little doubt that these loans would not have been forthcoming had the Experts' Committee not been set up.

Disillusionment was making headway; it was not yet fully conscious or articulate, but it was to become so a few months later, when the reactionary Bloc National was chased from power, and meanwhile a general political

and economic *malaise* was vaguely connected in the French mind with the Ruhr occupation and the failure of this experiment in force. The nation as a whole was anxious to evacuate the Ruhr if the operation could be conducted without loss of face; M. Poincaré had let one chance slip past when passive resistance was abandoned, and the institution of the Committee of Experts appeared to offer one more occasion for a not dishonourable retreat from an impossible position.

Belgium, which, in a certain sense, had had the post-war difficulties of both France and England combined to meet, was obviously anxious to evacuate the Ruhr on any excuse, and liquidate a venture which was entailing serious financial and economic difficulties and contained the seeds of even more serious political trouble in the future.

Great Britain was sincere in pursuing the policy of securing an economic settlement of an economic question; its trade was more and more disturbed and threatened by the progressive deterioration of European markets, and its people felt half consciously that the moment had come when one last chance of identifying British and Continental interests presented itself, the passing of which would drive them for a period to the policy of isolation from which the United States was beginning to emerge.

This change of policy in America was due, as is usual with American policies, to a mixture of hard-headedness and sentiment. The price of wheat was abnormally low, and the conditions of the moment seemed to emphasise the truth that America, with its rapidly developed export trade, could not flourish if trade in Europe was stagnant. Still less was it reasonable to hope for relief to the American taxpayer by the payment of inter-Allied debts (the

popular appetite for which had been whetted by the British funding operation) until some equilibrium was restored, and the first step towards equilibrium was plainly a settlement of the reparation question, or at least its removal from the arena for a few years. That section of American opinion, then, which for larger, if not more sufficient, reasons had preached America's solidarity with the rest of the world, and advocated her participation in the world's responsibilities, had a more receptive audience.

Thus it came that, for the first time since the Peace Treaty was drafted, American representatives sat as full and responsible members on a body to deal with one of the major problems created by that Treaty. The American members were not official members in the sense that they were either appointed by, or represented, their Government; but in this respect their position did not differ from that of their colleagues, for all the members of the Committee were nominated by the Reparation Commission. They were full official members of the Committee and not observers; their presence was approved in official American quarters, and it ensured for any report to which they put their signatures the full weight of American public opinion.

From the sum of these conditions one highly important conclusion was to be drawn: any report which the Experts chose to produce unanimously was practically assured beforehand of acceptance, and, indeed, if it was seaworthy, of success. It was taken for granted, in spite of the fact that Germany was not directly represented on the Committee, that its report would be impartial and as fair as unbiassed expert judgment could make it; the American members were neutrals in the dispute, and it was not conceivable

that they would subscribe to a partial finding. Neither Germany nor any one of the Allies could afford to reject its report; for each of the interested parties the plan was pre-destined to be, in words used after the event by Mr. Owen Young, as the rustic said of the cow which he had purchased after much haggling and higgling, "most too dear to take and most too cheap to leave." And it was assured beforehand of that moral support and material collaboration from the United States without which it could not be put into execution.

II

The Experts were invited to "consider the means of balancing the budget and the measures to be taken to stabilise the currency of Germany." These terms of reference are at least as important for what they omitted as for what they contained; they elaborately withheld any public admission that the Committee had to deal with the reparation problem as such, but were deliberately intended to incite it to find a solution which should at least put the problem into cold storage for a period long enough to permit the world to dispose of other and equally pressing problems, such as security and inter-Allied debtedness.

The terms of reference contain nothing about reparation, and nothing about Germany's capacity to pay. How, then, did the Experts concentrate their whole attention on the question of reparation? The answer is, of course, quite simple: so long as no specific reference is made to reparation, it was necessarily assumed that the provision of reparation payments was an integral feature of the expenditure side of the German budget, and in public law the provision of reparation payments meant the sum of

2 milliards and 26 per cent. of German exports payable annually under the Schedule of Payments. It was necessary therefore to consider whether an annual burden of this character was compatible with the balancing of the budget, and if it was not, either in the immediate or remoter future, what smaller burden could be imposed without endangering budget equilibrium. But the question was not then necessarily solved; in every respect the balancing of the budget and the stability of the currency, as the Experts were at pains to emphasise, were interdependent; it was essential to be assured that a sum which could be raised internally without endangering the budget could be transferred abroad without endangering the currency. No developed industrial country can maintain its currency if it habitually fails to balance its budget; no budget can be balanced if the currency of the country is not relatively stable.

The problem of reparation was therefore not to be evaded, even had evasion been desired, and in fact the Experts, disregarding Germany's legal obligations, which were demonstrably in excess of possibilities, disregarding the nominal capital debt of 132 milliards and the annual payments prescribed by the schedule, worked on a *tabula rasa*; they sought to discover what maximum payments could be made if the budget was to be balanced and the currency stabilised, and if this financial *assainissement* was to be maintained.

This second limiting condition is all important; one balanced budget is not a state of "budget-balance," and a short period of exchange tranquillity is not "currency stabilisation." In the view of the Experts, their task was to point out the conditions under which stability once attained could be continuously maintained. They did not

therefore content themselves with recommending a scheme of payments specifically designed to cover only a few years; theoretically the annuities recommended in the plan and accepted by the Allies and Germany could have been continued until they liquidated reparation. How far this theoretical possibility was a practical one, and the bearing of this on the question how far the plan was a solution of reparation, will be discussed later.

But payments and transfers, budget and currency, are only obverse and reverse of the same medal. Having satisfied themselves as to the amounts which could be safely imposed upon the budget, the Experts were not satisfied that the amount raised could necessarily be transferred without depreciation of the exchange, which, once renewed, would have produced the same conditions as it was desired to remove, though they were prone to believe that the mere existence of a budget surplus at the command of external interests would *tend* to create the means of transfer. To produce the budget surplus, if Germany's internal capacity was conservatively estimated, was within her own power, goodwill assisting; to transfer the budget surplus depended in the long run – and on this the Committee were uncompromising – on the existence of a balance of foreign payments in favour of Germany, and the creation of such a balance depended only in part on Germany's own energies and goodwill. Whether the whole of the budget surplus in each year could be transferred, and, if not, how large a fraction, was entirely uncertain; no economic data existed which would have formed the basis of anything but a hazardous conjecture, and certainly nothing like unanimity of opinion on this point could have been secured in the Committee itself. The Committee

circumvented the difficulty; they circumvented it, however, not because they desired to evade the duty of reaching frank agreement or equally frank disagreement on vital points, but because they were convinced that the difficulty was not soluble by the old means, and that no reasonable attempt could then be made to forecast the amounts transferable.

Hence the most important innovation introduced by the Experts; they made a clear distinction between the duty of raising revenue and paying it to the Allies, and the duty of transferring the sums raised into foreign currencies. The Germans were solely responsible for providing marks, and there their duty ended; the Allies themselves, acting through a Transfer Committee composed of practical bankers, were to be responsible for transferring the payments thus received without endangering the stability of the German currency.

Another word as "unblessed" as "capacity of payment" which is not explicitly to be found in the terms of reference is "moratorium." It was evident, however, that if Germany required a breathing-space a moratorium would in effect have to be granted; it was in fact almost painfully patent that such a breathing-space was essential, and that to ask the German Government to provide substantial sums in the near future would be much like asking an athlete to rise from the early stage of convalescence after a high and wasting fever in order to play a set of tennis; he might survive, but he would certainly suffer a severe relapse, and might prove to have played his last set. The Experts accordingly made no demand upon the German budget for the first year, and a very small demand upon German economy; they recommended that the gap should

be filled by a foreign loan of 800 million gold marks, to be floated on the principal money markets of the world.

Some square-toed critics objected, on the production of the plan, that the inclusion of this recommendation was the result of weakness on the part of the Committee, and represented a departure from principle; if the German budget could not be balanced, nor the German currency stabilised, without a moratorium, the moratorium should have been granted, and all payments should have been arrested until purely economic conditions permitted their resumption. It was in principle indefensible to appeal to the investors of America and Great Britain – for they would certainly be the main contributors – to provide the means of financing deliveries in kind to France and Belgium, who were largely responsible for the conditions which made their financing by Germany impossible.

There were several answers to this perfectly natural and *prima facie* justifiable criticism, or it would perhaps be truer to say that an accumulation of reasons for the course actually adopted can reasonably be advanced. At an early stage of its deliberations, most of the Committee, if not all its members, arrived at the tentative conclusion that no foreign loan was necessary to balance the budget, though a certain amount of foreign capital towards the institution of the new Bank of Issue, or re-institution of the old Bank of Issue, was considered desirable to strengthen the currency and assure its stability. It was from no weakness of principle, and no desire to make concessions to unfounded political exigencies, that the Committee at a later stage so far revised its conclusion (the recommendation is not strictly a revision of the conclusion mentioned above) as to recommend the continuance of certain

reparation payments on a not inconsiderable scale and the raising of a foreign loan as an integral part of its plan.

In the first place, it would not have been reasonable to disregard the needs of the receiving countries if some satisfaction could be accorded to them without sacrifice of principle; it was no part of the Committee's duty to ensure that the full consequences of the invasion of the Ruhr should fall directly, immediately, and emphatically on the recipients of reparation, and principally on the Powers responsible therefor. The goodwill of all interested parties was essential to the acceptance and loyal execution of the scheme; when there was already plenty of powder, a little jam could not be amiss if there was nothing in the jam to counteract the effects of the powder. The complete cessation of all reparation, and in particular of coal deliveries, was bound to create serious difficulties for France, Belgium, and Italy, and, if these difficulties could legitimately be obviated, it would have been gratuitous to reject the means. No sacrifice of principle was involved when once it was decided that the loan must be regarded as discounting the future, its interest and amortisation being charged upon the subsequent annuities.

On the other hand there were other and positive reasons which operated actively in favour of the loan. In the first place, the depression in Germany itself regarding Germany's position was abysmal; self-confidence had vanished and the best way to re-create it was to show that other people had confidence in Germany's future and in the feasibility of the plan.

It was desirable, moreover directly to interest the countries entitled to reparation, America, and neutrals in the success of the plan and in that rehabilitation

of Germany which was the essential preliminary. No plan could be a success which did not contemplate the grant of credit to Germany on a considerable scale in the future, and the sooner a start could be made the better.

Finally the loan would bring a certain amount of valuable foreign money to Germany for the support of German currency. The payments to be made in the first year involved no direct transfer of cash, but were to be made in the form of deliveries in kind and the supply of the needs of the occupying armies within Germany. The circulation of money was bound to increase, and the foreign money provided by the loan would provide legitimate cover for more than the amounts required to satisfy these internal obligations.

Again, the terms of reference do not even vaguely allude to the occupation of the Ruhr – which was in some respects the *raison d'être* of the Committee – nor is any mention of the Ruhr to be found in the Committee's report. The subject is, however, dealt with summarily and adequately; the Committee resolved at the outset that to consider means of balancing Germany's budget and stabilising Germany's currency under the conditions then ruling, i.e. "with limitation as to her fiscal and economic rights over part of her area," was a useless mental exercise. "We should say at the outset that we have been unable to find any practical means of ensuring permanent stability in budget and currency under these conditions, and we think it unlikely that such means exist. . . . We have, therefore, been compelled to make the assumption that the fiscal and economic unity of the Reich will be restored, and our whole report is based on this hypothesis."

Scrupulously non-political, the Committee did not

specifically reject military occupation; it left, however, to the Governments concerned the duty of ensuring that any military occupation should be of such a character as not to conflict in the slightest degree with the full fiscal and economic unity which was postulated, and it drew attention to the community of interests involved in the event of sanctions appearing to be desirable at a later date, thus deprecating with becoming tact isolated action to protect common interests. Finally the plan required that the Governments should themselves bear the cost of military occupation, and, by bringing the question home to their purses, gave them every encouragement to be reasonable and to reduce the area of occupation to that definitely prescribed by the Treaty.

Such was the essential groundwork of the Committee's plan. It is worth while briefly to examine certain principles which inspired their deliberations and certain further salient features which flowed therefrom. First and foremost, the Committee approached their task as an economic one, not ignorant of the inter-reaction of politics, but deliberately abstracting political considerations from their problem and facing it objectively, as behoved economic experts. They made, individually and collectively, an honest and, in my belief, a successful attempt not to fall under any Government influences, not to consult Governments on possible recommendations, and not even in many cases to keep them informed of the course of deliberations.[1] For similar reasons, they maintained with consider-

[1] At one moment, late in the day, the British Experts made a hasty visit to London, variously misinterpreted in the French Press, to give a minimum of information to the British Government, who were complaining that for their knowledge of what was happening in the Committee they were dependent on the information supplied by the French Government.

able difficulty, but not without some measure of success, a policy of secrecy towards the Press, where animated discussions of particular features of the Committee's plan divorced from their context would have aroused premature opposition and gravely embarrassed some at least of the members.

The Committee were not merely concerned to be non-political themselves; they were anxious that their plan should be one which could be executed in a non-political atmosphere, and not subjected to the variable gusts of popular opinion and exigencies of political situations in five different countries. If this end was to be attained, it was essential – and on this point my recollections and impression is that the completest unanimity reigned – that the daily administration of reparation questions should be taken out of the hands of the Reparation Commission. Business could not reasonably be transacted when decisions on simple questions required to be taken, sometimes unanimously, by the representatives of four Powers with conflicting interests. The Commission had not evolved on the lines apparently intended by its creators; its utility had vanished when it gave birth to the Experts' Committee; it would not be a serious over-statement to say that it died in giving birth to the Committee, and that nothing else in its life more became it. Most of its administrative functions were transferred to new officials and bodies sitting in Berlin and invested with responsible powers which deliberately precluded the necessity of constant reference to Paris. There is nothing in the Experts' Report, however, which directly or explicitly destroyed the Reparation Commission; a mere process of natural adaptation of function was alone required. The Commission

might and did continue to exist (as did the Schedule of Payments), but in its relations with Germany it retained during the operation of the plan little more than its judicial functions, and even these, so far as the plan itself might come into question, were subordinated to the existence of an arbitration court of appeal.

Further, in relation to the various administrative officials or bodies set up by the plan, every effort was exerted to secure that appointments should be made on grounds of competence alone; the original foreign members of the General Board of the Bank were to be appointed by the Organisation Committee; half of the members of the Railway Board by the Trustee for the Railway Debentures; and the members of the Transfer Committee by the Reparation Commission, but only after consultation with the foreign members of the Bank Board.

Finally, impartiality on the Transfer Committee was secured, as far as humanly possible, by the fact that of the six members one should necessarily be an American, while it was hoped that the Agent General, who was to act as Chairman of the Committee, would be of the same nationality.

Another important principle to which the Experts speedily adhered was that any scheme which involved extensive control of German administration, and in particular of German expenditure, must be summarily rejected. Control of the expenditure of a civilised country of over 60 million inhabitants was fantastic; even had it been possible it would have entailed the overwhelming disadvantage that it would inevitably have involved the controlling authority in responsibility for any political or social difficulties which might arise, and on numerous occasions

have forced it to take sides in internal disputes; it would almost certainly have created these difficulties and fomented these disputes where they would not otherwise have arisen.

It appeared to the Experts to be wiser to abstract certain resources from the whole of those available in Germany, to earmark them to the Allies, and to leave the balance to the German people to expend as seemed good to it. In the case of each earmarked resource, moreover, it was their aim not to absorb the whole for reparation payments, but to keep continuous German interest in the fruitfulness of those resources alive by leaving a balance on which the German fiscal authorities or German economy at large might draw.

The control instituted even over these resources was deliberately loose in its character, and did not involve in any sphere continual interference in German administration, so long as Germany's obligations, which were believed to have been fixed at a figure well within her capacity, were punctually met. In the event of unpunctuality the control could be progressively tightened, but normally it was not only loose, but so unobtrusive that one is at a loss to understand how Mr. Keynes's accuracy and imaginative insight could so far have deserted him as to permit him to write that the plan "pretended" – there may be much virtue in this word – "to erect a system which was not compatible with civilisation or with human nature. It set up foreign control over the Banking, the Transport, and the Fiscal Systems of Germany, the object of which would be to extract from the German people the last drop of sweat."[1] This is gross exaggeration; (1) the Bank

[1] *The Nation and the Athenaeum*, 4th October, 1924.

Board consisted of fourteen members, of whom half, including the Chairman, were necessarily German, and in many cases a simple majority of one, i.e. a combination of the German members and the Commissioner, was to be decisive in a vote, and in any case a combination of the German members and three foreign (not necessarily Allied members) was decisive; the Commissioner's sole absolute duty was to ensure the observance of the law and regulations governing the issue of notes and the maintenance of the reserves. (2) The Railway Company was administered by a Board of eighteen members, half of whom were to be appointed by the German Government; of the remaining nine, appointed by the Trustee, five might be, and in fact were, German nationals. The Commissioner had no active powers of interference with administration so long as payments were punctually made. (3) As regards the Controlled Revenues, it was never contemplated, and it was not in fact provided in the protocol defining his powers, that the Commissioner would in normal times have any more influence on fiscal policy than was implied in the stipulation that the rates of four out of five of the assigned taxes could not be reduced without his consent. Even in abnormal times, and in the most improbable contingencies, he was not intended to have, and was not given, any powers which could remotely justify the description "foreign control of the Fiscal System." In particular, though the customs duties were assigned, he had no power to interfere with the German customs policy.

My own impression was that the Experts were under no illusions as to the value of control, if conditions should ever call for the application of its strictest form. Unless serious errors had been made in the calculation of Germany's

capacity to produce internal revenues, these conditions could only have arisen in circumstances which would have signified German repudiation of the plan, to which she had been invited to adhere of her own free will. In such circumstances control could have made things unpleasant and even unworkable for the German Government and for the German people; it could not have produced money, for which purpose it was the intimate conviction of the Experts that loyal collaboration between debtor and creditor, an entire abandonment of pin-pricks, a consciousness of justice, and an acceptance of a burden not demonstrably in excess of capacity, together with an inducement to shoulder it, were essential. This, however, is not a proof that the control, even in its stricter form, is an empty form; it is merely a recognition of the fact that penalties and reprisals, which should be kept for deliberate and calculated default, are, like war itself, disadvantageous to both sides.

Everything, therefore, depended in the last resort on whether German capacity to bear taxation had been conservatively, but justly, calculated. To some extent it defies exact calculation just as much as the future balance of trade, which is the measure of German capacity to transfer. It does, however, submit to certain general tests, and it is comparatively easy to fix upon sums which such general tests will demonstrate to be well within, or well beyond, capacity; the absence of an accurate instrument of measure is only serious in the case of sums near the margin, and the object of the Experts, avoiding old errors, was to fix sums high enough to represent a real burden but low enough to stimulate confidence, internally and externally, and to leave a margin for the accretion of wealth which Germans themselves could hope to enjoy if they earned it.

To one standard in particular the Experts, as will be evident from a study of their report, devoted much serious attention – the comparative burden of taxation in the Allied countries and Germany. It is not uncommonly supposed that the Treaty provided for commensurate taxation, but this is incorrect. The Treaty[1] provided that "in periodically estimating Germany's capacity to pay, the Commission shall examine the German system of taxation . . . so to satisfy itself that in general the German scheme of taxation is fully as heavy proportionately as that of any of the Powers represented on the Commission." The wording as it stands is obviously defective, for no amount of examination could satisfy the Commission that the condition was fulfilled if it was in fact unfulfilled, and the text contains no direction as to what was to happen in the case of dissatisfaction. The intention was, however, evident enough if the other provisions of the Reparation Chapter were borne in mind; this intention was that no plea for a revision of Germany's obligations should be entertained if the German Government was not taxing its subjects as heavily, all necessary difference in wealth and distribution of wealth being taken in account, as the Allied Governments their subjects. The provision under the Treaty scheme of reparation payments might well be futile, for the difficulty might not be in the raising of revenue as such, but in the conversion of it into foreign currencies, for which Germany alone was responsible. Under the system of the Experts, however, when Germany's duty began and ended with the provision of marks, the stability of which was assured so far as humanly possible, the criterion became a valuable one if applied

[1] Chap. VIII., Annex II., Para. 12.

unmeticulously. That no attempt at rigorous and exact calculation was made is sufficiently explained in a reasoned statement in the report itself; it must be added, too, that the most important use made of the criterion was negative; while the Experts were anxious that the German people should bear war burdens at least as heavy as those of the Allies, they were even more concerned to show that the burdens which they recommended were not heavier than could be justified by the application of the test in question.[1]

Two apparently insignificant, but highly important recommendations deserve mention. The first relates to the inclusive nature of the payments prescribed; they were intended to cover not only reparation, but all costs of all armies of occupation, restitution, and in short all charges payable to the Allied and Associated Powers for costs arising out of the war, with the contingent exception of payments on Clearing Office account for the settlement of private debts and the liquidation of private property. The real importance of this provision may be seen from the fact that in the first year of the plan, out of one milliard gold marks paid, nearly 200 million gold marks were not a proper subject of credit on reparation account. In the past the real burden of the Treaty on Germany had frequently been obscured by an undue concentration on the purely reparation payments, and on occasion other payments had actively militated against the receipt of reparation. Moreover, the vicious system whereby the Allied armies

[1] There is, in my opinion, some ground for the criticism that in certain passages devoted to this problem the Experts speak as if Germany were enriched by, or in as good a position to pay taxes after, the destruction of her internal debt – a fallacy which they would certainly not have deliberately countenanced.

of occupation could demand unlimited services and furnishings – a system which must have made the Rhineland approximate to an Army Council's dream of Paradise – was now brought to an end, and the Allies were forced to see exactly what the occupation was costing them – and not Germany.[1]

The second recommendation was that the plan must be taken or left as a whole. The speed at which international negotiations are conducted is never vertiginous, even when one of the various Governments concerned is not in the throes of a general election (and, as a matter of fact, there were general elections both in Germany and France between the publication of the report and its putting into execution). Had not picking and choosing been excluded, by the time each interested party had haggled for the exclusion of the distasteful recommendations and for the inclusion of others which he found wanting (and one of the beauties of the plan was that each party would desire so to mend it), the conditions would have so altered as to render the plan out of date.

Finally, it should never be forgotten that in the minds of its authors the plan was essentially a great experiment. They fixed certain sums as payable by Germany in Germany; they could form no idea of the proportion of those sums which could be transformed into foreign currencies without producing a currency breakdown, and they

[1] The priority granted to the costs of occupation was a fraud upon the non-occupying participants in reparation. The practice of charging the gross costs could only have been justified if these had represented the additional cost thrown upon the French, British, and Belgian Treasuries by keeping troops in the Rhineland. The net cost of this operation was trifling unless the troops on the Rhine would have been disbanded but for the occupation – and this was only true of the American troops, which were soon withdrawn.

believed that only experience could show. Among the Experts themselves it is probable that very divergent views prevailed as to what would prove to be possible. There was, moreover, serious room for doubt as to how far the countries participating in reparation would submit to the disadvantages inherent in any system by which large payments were made gratuitously by one industrial country to another. Germany could only pay by increasing her exports and services, which process would accentuate her competitive powers, and while her payments would benefit the taxpayers of the receiving countries, they would in varying degree incommode manufacturers or exporters of the same countries, in accordance as German competition was felt directly in the home markets or indirectly in the other markets to which both Germany and the recipient country desired to export. While there could be little doubt that a community as a whole would only gain by receiving something for nothing, the obstacles placed in the way of deliveries in kind on reparation account and the general growth of protection were sufficient indication that the injured sections of the community might prove more vocal and more powerful than the general taxpayer, and so create difficulties of Allied, and not of German, making in transforming the payments into goods and so transferring them directly or indirectly to Germany's creditors. This struggle of interests was subsequently given some prominence, thanks to some spade-language used by Sir Josiah Stamp, at the meeting of the International Chambers of Commerce held in Brussels in June 1925.

The plan was, then, intended to provide the data for maturer judgment, after the lapse of a few years, when, it might be hoped, the economic relations between the

different countries of the world would have reverted to a more normal state, and the channels of trade and exchange under post-war conditions were more clearly indicated. The cry commonly heard from the first year of the plan onwards – that it was about to break down and write itself a failure owing to the impossibility of transferring the whole of the annuities – betrayed a total misconception of its authors' intention, for which the report itself furnishes no excuse. The plan foresaw and provided for the impossibility of transfer; it only broke down if the capacity of Germany to provide money to be transferred had been seriously over-estimated, and if consequently the material required for the laboratory experiment in transfer was in short supply; it did not break down if the transfers could not be integrally effected, this result being one of the possible results of the experiment which the Experts prepared.

Similarly, to criticise the plan on the ground that it did not provide a solution of the reparation problem was to misconceive its spirit. Not only its spirit, but the mission of its authors; they had no power to settle the reparation problem, for they were not empowered, however elastic their interpretation of the terms of reference, to deal with the nominal capital of the German debt, and until this could be radically treated it was inept to talk of a solution. Nor would it have been possible, even if admissible, to produce a solution in the conditions then prevailing which would not have required sacrifices which would have appeared enormous and disproportionate.

The Experts were not asked to solve the reparation problem, and they lacked the necessary data. There was another reason which would have made a scientific solution premature. The German payments were only one of a

series of international payments arising out of the war which react on each other; the amount of German payments which could be made and received without disproportionate disturbance to the world's economic relationships depended to a great extent on the amounts which would finally be payable on the head of inter-Allied debts. The ultimate recipients of German payments could not be identified until inter-Allied debts were settled, and the ultimate amount transferable depended at least partly on the behaviour and reactions of these ultimate recipients – on their readiness to accept foreign imports, or on their readiness to invest money abroad. The problem of inter-Allied indebtedness, which, as between any two nations, could be divorced from reparation, was, on an ultimate analysis, intimately bound up with it.

III

The Experts presented their report to the Reparation Commission on the 9th April, 1924, and the Commission, on the 11th April, passed a resolution adopting the recommendations in so far as they fell within the Commission's competence, and referring the others, with their blessing, to the interested Governments.

One fence had been jumped, but a considerable number of obstacles remained to be surmounted, and to outward appearance, at any rate, success was not assured.

The German people were in the throes of a general election, in which the extreme right, for reasons of their own, had chosen the rejection of the report as a plank in their platform. The adoption of the plan involved a change in the constitution of the Reich, and the law effecting it would require a two-thirds majority in the Reichstag

for its passage. The new Parliament proved to be considerably more Nationalist in its complexion than the old – and it was, after a few months, to prove impossible to constitute a workable Government from it. The report could not be adopted without the help of the Nationalists, who had waged a furious campaign against it. Competent observers maintained, however, that this campaign had been based exclusively on considerations of internal politics; it had been necessary to combat all the policies of the previous Government, including naturally, in the sphere of foreign politics, the policy of "fulfilment."

But in any case the Nationalists had no clear majority and the old Government continued in existence and nailed its colours to the mast with a declaration that the official policy regarding the report was unaltered by the result of the election; it was regarded as a practical foundation for the solution of the problem, and the German Government was prepared to collaborate.

The French Government was an even greater sign of interrogation. Would M. Poincaré bow to the inevitable, and, overlooking what was disagreeable in the report, represent it as a triumph for his policy, or would he be consistent to the end and impose wrecking conditions for the acceptance of the report? The former course was not difficult, and was extensively adopted by organs of the right. Had not General Dawes stated that it was only the occupation of the Ruhr that made the preparation of the plan possible, and had not the delightful double-edgedness of this remark been slightly ignored, and the further explanation that it was only the Ruhr which made the plan *necessary*? Was not the report of the McKenna Committee hailed as the vindication of those who maintained that

Germany had large sums tucked away abroad, and the report of the Dawes Committee itself as an authoritative proof that Germany *could* pay – no stress being laid on the amount of the payment, or on the fact that the amounts now suggested were considerably less than those rejected almost with contumely by M. Poincaré in January 1923? And was not everyone anxious to let M. Poincaré extract such illusory comfort as he could from the plan, and to avoid dotting i's or crossing t's – a mere work of supererogation – if only he would accept the report and take the necessary steps to bring it into operation? The answer which one gave to these questions depended entirely on the view which one held of M. Poincaré's character, and, as to that, roughly two views were possible. Either M. Poincaré was scrupulously honest, but, despite a keen power of legal analysis, which had been developed at the expense of every other intellectual faculty, fundamentally – well, stupid[1]; or else he was fundamentally dishonest, but diabolically clever – clever enough to produce the appearance of honest stupidity and impenetrability to argument, and as clever as the Catholic Church in pursuing a policy which should eventually produce the desired fruits, even though the bread should not be found again except after many, many days. If the first view were correct, he would certainly not accept the plan, and would prefer the wilderness of opposition to power on a diet of his own words; if the second were more in conformity with the facts, his conduct was more doubtfully to be foreseen,

[1] "He was bred to the law . . . a science which does more to quicken and invigorate the understanding than all the other kinds of learning put together; but it is not apt, except in persons very happily born, to open and liberalise the mind exactly in the same proportion." – Burke. With which may be compared M. Clemenceau's acrid designation of a colleague: "Bête comme un juriste."

and depended on his estimation of the course of policy which was better calculated to weaken Germany and maintain a French strangle-hold upon her.

He was not much longer to have the duty of directing French policy, but his first move was designed to keep his hands free and enforce upon Germany the fulfilment of all duties which would be incumbent upon her if the plan were in execution without himself providing any of the guarantees or making any of the concessions necessary to its operation, and, indeed, without unambiguously accepting it. In pursuance of his set policy of pouring sand rather than oil into the international machinery, he informed the Reparation Commission[1] that it would be essential to carry out matters in a different order; ignoring the fact that the plan was not the Treaty, and that it could not be enforced upon Germany, but must be embodied in a new contract, he demurred to any procedure which would seem to put the German and Allied Governments on the same footing, and requested, with no excessive attention to form, that the Commission should do its own business efficiently; its business was to see that the plan was put into execution after discussion with the German Government regarding the text of the various laws and measures necessitated; *after the plan was effectively put into operation* the Governments would have to consider together under what conditions the securities at present held by France and Belgium should be merged into, or exchanged for, those which would be handed over as an undivided whole to all the Allies.

It may be surmised that the French delegate, himself

[1] After "congratulating himself on having taken the initiative of requesting the French Delegate on the Reparation Commission to propose the convocation of the Experts"!

a very astute politician, received this letter with a sense of anger which must quickly have yielded to an overpowering desire for Homeric laughter. Was it M. Poincaré's malice, or was it that "his mind had not been opened in exactly the same proportion as his understanding had been quickened and invigorated?"

Fortunately it did not much matter, though at the moment the re-employment of these obstructionist tactics was depressing, and seemed serious. The French general election was drawing near, and many observers, fearful of the reaction on French public opinion of the election results in Germany, and concentrating their attention, as politicians so often do, on the metropolis, and forgetting the provinces, were prophesying a new lease of power for M. Poincaré; the very care which was taken not to embarrass French opinion by pointing morals was working in his favour. And then the French electorate surprised the world, and surprised their own chosen leaders, with the magnitude of the *débâcle* which they inflicted on the Bloc National; M. Poincaré fell like Phaethon, and M. Herriot came into power as the leader of the combined forces of the left. At last Europe had rid itself of its "khaki" and "horizon bleu" Governments, and had a new chance to begin the process of reconstruction.

Valuable time was inevitably lost while M. Herriot was making himself comfortable in the saddle, though he at once established contact with Mr. Ramsay MacDonald, and it was not until July that it was possible to summon an inter-Allied Conference in London. In the interval, Organisation Committees, composed of Allied and German members, had, as recommended by the Experts Committee, been set up to elaborate the laws and statutes

for the Bank and the Railway Company, and completed the plan for the creation of Industrial Debentures, while arrangements were made for the drafting of the protocol which was to define the powers of the Commissioner of Controlled Revenues.

In its actual rate of progress the Conference must have been, to those who partook in it as experts and not as plenipotentiaries, almost as unsatisfactory as its cinematographic predecessors. That so many weeks were necessary to attain results in themselves quite simple and satisfactory was in large measure due to the position and mentality of M. Herriot. He was before all else a patriot, and when in opposition his criticism of a policy which he detested was deprived of some of its trenchancy by his recognition that M. Poincaré was undoubtedly a patriot according to his own lights, and perhaps by his fear of taunts directed against his own patriotism. Before the election he was, moreover, entirely unconscious of the strength of his own party in the country, and he shirked giving it a clear lead on foreign politics; there was therefore much to be said for the view that the country had not pronounced against M. Poincaré's foreign policy, but only against the internal difficulties which were in fact, but were not generally realised as being, the fairly direct consequences of it. M. Poincaré therefore made himself troublesome in Paris while M. Herriot was in London, particularly over the evident intention of the Conference to summon German Government representatives and negotiate with them as equals over the final liquidation of the Ruhr venture, and over plans for obviating the reversion to such lawless recourse to force by one ally through the institution of a general system of arbitration. For some time, therefore,

M. Herriot was both unnecessarily timid and even prone to sudden tears; when the Nationalist storm-cloud seemed ready to burst, however, he made a hasty visit to Paris, and, acclaimed by enthusiastic crowds wherever he showed himself, was able more accurately to gauge the real strength of his own position and the determination of his own party. Like Antaeus, he was fortified by contact with his native soil, and, like other political leaders before him, he was cheerfully nailed to the mast by his crew.

On his return to London events moved with greater rapidity and smoothness; all attempts to disturb the structure planned by the Experts by the addition of new features which would have introduced new stresses and strains were defeated, and general agreements between the Reparation Commission and the German Government and between the Allied Governments and the German Government were drawn up and signed on the 9th August. All necessary arrangements were made in these documents for bringing the plan into operation, for regulating the transition, and for maintaining it in operation, which practically involved the suspension of the Reparation Chapter of the Treaty. At the same time a separate undertaking was given by the French and Belgian Governments that they would completely evacuate the Ruhr at the end of the first year of the plan if Germany carried out her obligations under it. The new reparation year was to run from the 1st September, at which date a start was to be made with the operation of the plan, and all the necessary steps were to be taken by the Allied Governments and the German Government to bring it into full operation before the end of October.

There remained one more hurdle: would the Reichstag

vote the necessary laws, with a two-thirds majority in the case of the Railway Law, which technically altered the constitution? If not, new elections would be necessary, the bringing into operation of the plan would be delayed, and valuable time, during which the existing strain on Germany would continue, would be lost. There was little doubt as to the result of new elections; the German people were aware that the defeat of the Government, if not retrieved, meant a prolongation of the occupation of the Ruhr, a tremendous shock to credit and currency, and a return to economic chaos and the feverish nightmare from which they were just awakening. Any party was bound to recoil from such a responsibility – or such an irresponsibility, and the Nationalist party arranged with mathematical precision that sufficient of their number should vote for the alteration of the constitution to ensure its validity, the rest abstaining or recording adverse votes; by a manœuvre which became famous, the "Ayes" approached the voting urns ostentatiously brandishing "No" cards, and substituted others at the last moment, and, after this somewhat undignified attempt at legerdemain, they could relieve their minds by voting in larger numbers against the other laws necessary to bring the report into execution, which received smaller majorities.

The way was now clear for the institution of the great experiment; the London arrangements were duly carried out, all the necessary measures taken during the transition stage by the Allied Governments, by Germany, and by the Reparation Commission, the loan of 800 millions was raised, and the plan came into full operation on the 31st October. The history of the transition will be found in the first report of the Agent General for Reparation Payments.

CHAPTER V

THE PACIFICATION AND REHABILITATION OF EUROPE

It was the Experts' hope that the Dawes Plan would provide the necessary material for a rational final settlement of the reparation question; it was their firm belief that its operation would in any case ensure a breathing-space in which sensible progress might be made with the comprehensive problem of reconstruction, of which, as the Experts recognised, reparation was only one part. How far the hope was well grounded must be examined later; the belief was fully justified by the course of events. The directions in which progress was to be sought were the stabilisation of the principal European exchanges, the settlement, permanently or provisionally, of inter-Allied debts, and the re-establishment of normal and friendly international relations.

We need not stop to consider in any detail the process, slow, painful, and wasteful, by which, in the three years following the inception of the plan, the British currency was restored to parity on a gold basis, and the Belgian, Italian, and French currencies devalorised and stabilised at varying percentages of their pre-war gold value. The depreciation of the Continental exchanges was due primarily to the war itself, though exaggerated, in the case of France at any rate, by the post-war conduct of its

finances and the pernicious habit of putting off the evil day of reckoning in the hope that the holes in the budget would eventually be plugged with reparation receipts. When once the reparation receipts had been settled for a term of years, financial order had to be introduced, both for internal and external reasons. Internally France came to the very verge of a catastrophe before remedial measures were applied, and if they had not been applied the franc would have continued up to some uncertain stage to reproduce the history of the mark, though the absence of external pressure for payments would always have preserved France from the worst feature of German inflation. Externally the sensibility of the French exchange and the tendency to fly from the franc must have been felt by the French Government as a serious handicap to its freedom of movement. Incidentally it may be remarked that the experience of France showed again that, except in time of war, it is futile to attempt to control the export of capital with any completeness; the network erected for the purpose is so curiously constructed that it lets all the big fish through and is only effective in stopping the smaller fry.

Exchange instability was only indirectly connected with reparation, though the depreciation of the French franc – the course, that is, and not the fact of depreciation – was felt by Germany as a serious disturbance to trade and the re-establishment of normal commercial relations. The question of inter-Allied debts was more directly connected. The nature of the connection has already been discussed at some length in a previous chapter. The British standpoint, at its purest, was that the connection was negative in nature; the British Government would in any case not

demand more by way of reparation than was required to pay its own debt to America, but the illegitimate extension of this principle was that any deficit must be made up by payments from France and other Allies in respect of their debts to Great Britain. The French standpoint, reduced to its simplest terms, was that until France knew definitely how much Germany could pay she would not be able to fund her debts to America and Great Britain, since she required enough from Germany to cover both that debt and the cost of reconstructing the devastated areas. The American official view was that the two subjects were and must be kept entirely distinct; the popular view was that the attempt to establish a connection was merely the translation into practice of a desire to saddle the United States with the cost of the war. That neither view was entirely supreme was shown by the issue early in 1927 of a statement signed by President Nicholas Murray Butler and forty professors of Columbia University attacking the war debt settlements as unsound in principle, and recommending the convocation of an international conference to review the entire problem of debt payments and to make proposals for readjustment. The story runs that at about the same time Mr. Coolidge listened patiently to a half-hour's exposition of the inter-Allied debt problem which was designed as a plea for considerate treatment of France, and then closed the discussion with his sole contribution to it in the words: "The French hired the money, didn't they?" The Executive being of so "coming-on a disposition," it was not to be expected that the Columbian manifesto would have much effect in Government circles.

The British debt to America was funded before the

invasion of the Ruhr; the Belgian Government came to terms with America in 1925 – the Belgian debt to France and Great Britain was payable by Germany under the Treaty of Versailles and therefore merged, and to all intents and purposes obliterated, in reparation payments under the Dawes Plan – and the Italian Government soon after entered into favourable agreements with America and Britain. In April 1926 the French Government entered into a debt agreement with the United States Government, and in July into a similar agreement with the British Government. These agreements were made at a time when France was in the throes of her financial crisis, and, though they were more favourable than arrangements discussed and accepted in principle a year earlier, they were intensely unpopular in France. So long as they were unratified the American money market was shut to France, and shut to any sale of reparation bonds for the benefit of France, and an Expert Committee set up by the French Government to prepare a scheme of financial reform, which it seemed difficult to carry through without foreign credit, unequivocally recommended their ratification. It might have been possible at that moment to secure their ratification by Parliament, and M. Poincaré appeared inclined to force them on the Chamber, but deciding presumably that defeat on this point would imperil the whole scheme of financial reconstruction, he refrained. As the condition of France improved and it became plain that, so far from outside assistance being required to support the franc, the main difficulty was to stem the foreign bulls whose purchases of francs threatened to restore the currency to a value which would have made it difficult, if not impossible, to balance the budget, the

chances of early ratification vanished, and the French Government contented itself with paying without prejudice the sums which it would have had to pay under the agreements if ratified.

The French reluctance to ratify was due to the absence in the agreements of a "safeguard" clause which would have entitled the French Government to reopen the settlement if, owing to a failure in reparation payments by Germany, it became necessary to meet the debts from its own resources, or, in other words, to the desire to maintain the connection between inter-Allied debt payments and reparation. The United States had obstinately and definitely refused to incorporate any safeguard, or shadow of a safeguard, in the debt agreement, maintaining consistently the view that the connection was non-existent. The French agreement with the United States merged into one the war debts proper and the so-called commercial debt arising out of the purchases by the French Government of American army stores in France at the conclusion of the war. The contract regulating this purchase, which the French Government of the time were probably improvident in concluding, had provided for a payment of $400,000,000 on the 1st August, 1929. As time slipped away it became clear that the alternatives before the French were ratification before that date or the payment of $400,000,000, with the certainty that a debt agreement would have to be concluded, with the probability that the above payment would have been pure waste, and the possibility that in other respects new negotiations would only result in American and British demands, in the light of the improvement in French conditions, for larger payments.

In the meantime, to anticipate later history, the Committee set up to review the working of the Dawes Plan and to make proposals for a final settlement of reparation, reported at the beginning of June, and proposed a revised schedule of payments, which is substantially constituted of an unconditional annuity payable over thirty-seven years and further annuities payable over fifty-nine years, which correspond roughly to the net amounts necessary for the service of inter-Allied debts.[1] A *de facto* connection between German payments and inter-Allied debts was thus established, but it was not the kind of connection which French public opinion demanded. It ensured, so far as it could be ensured, the payment by Germany of all that was required to pay the United States and Great Britain for the whole currency of the debts, but it did nothing, and could do nothing, to relieve France of her own obligation if Germany should default in her payments. And it was clear that the new plan would not be accepted by Germany or the other Allies even in principle before the date at which France would have to make up her mind whether to ratify the debt agreements or, throwing good money after bad, speculate on the remote chances of negotiating a more favourable arrangement at a later date. On the other hand, the Chamber felt that its hands were also being forced for the

[1] It is not clear from the report how far, if at all, Germany is obliged to make unconditional payments after thirty-seven years, when payments designed as reparation receipts proper cease. It seems clear that any securities issued to mobilise the unconditional annuity cannot have a currency extending past 1965–6, since after that date, if inter-Allied debts are reduced, Germany obtains the whole benefit, and if they are cancelled she has nothing to pay. It is not clear, however, whether after that date Germany is bound to pay unconditionally so long as her debt has not been thus reduced below the figure of 660 million marks, at which the unconditional payment was fixed. See also p. 183, footnote.

acceptance of the new reparation plan, against which much could be said, for it was unthinkable that, having ratified the debt agreements, the Chamber should reject a plan which offered as much security as any plan could offer that France would be covered as regards her payments and obtain something over, and throw the whole reparation plan again into the melting-pot. Desperate and undignified last-minute efforts to secure a further postponement from the United States Government, foredoomed to failure since only Congress could act and Congress was dispersed to the four points of the compass, were forced upon an unwilling Government by the Chamber, and the debt agreements were duly ratified in time to avoid the payment of the $400,000,000 due, in the absence of ratification, on the 1st August. Even so, the Chamber found it necessary to pass a purely inoperative resolution which purported to make the payments to America and Great Britain dependent on receipts by Germany – necessarily inoperative, for the ratification itself was absolute and unconditional.

It is, of course, futile to take two factors from the whole nexus of international indebtedness and to say that they are unconnected; they are necessarily connected, and it is only the nature and extent of their interdependence which is doubtful. In the early stages of dealing with the whole complex problem the reasonable business standpoint was that, the amount which all were desirous of obtaining from Germany being the maximum amount which she could pay, Germany's debt should first be settled on its own merits, and Allied debts afterwards discussed on their merits. The amount to be obtained from Germany, on this view, could not possibly be affected by

the amount which the Allies would have to pay to America, and in this limited sense there was no close connection between the two problems.

There was much less to be said for this view when once the process started by the Balfour Note had been carried so far as the conclusion of funding agreements for the payment of the British debt to America and the French debts to America and Great Britain. The amount which France – to deal with her alone – was to pay having been fixed and the amount which France was to receive being entirely problematic, there was an obvious connection between the two questions unless it were possible successfully to contend that the payments imposed on France were well within her capacity, however small the sum which it might eventually prove possible to extract from Germany. In other words, while the sums which Germany could and therefore should pay were entirely independent of the sums owed by France and Great Britain, the latter were obviously conditioned by the former as finally determined, and the theory of non-connection worked, so to speak, in one direction only.

From this point of view it would have been distinctly preferable to leave inter-Allied debts unsettled until the final settlement of reparation. It is probably true that Great Britain at least was forced, in the interest of her own credit, to fund her debt to America, and there was not much reason to doubt that the settlement was in any circumstances within her capacity, though the weight of the burden would automatically vary with the amount obtained by Great Britain from her former Allies and from Germany. It was difficult to make a similar assertion regarding the effect of the funding agreements negotiated

by France in Washington and London, more especially as these agreements involved payments, increasing in size, over more than sixty years – over a much longer period, that is, than Germany's payments were then expected to cover. Not only did the conclusion of these arrangements, with difficulty alterable when once ratified, involve a possible injustice to France; they were dangerous for another reason. If it had proved that France could pay the amounts demanded of her, at any rate for a generation, without undue hardship, even if Germany's capacity had been much over-estimated, and if for one reason or another France had become highly reactionary, then it would be discovered that the United States and Great Britain had thrown away the only weapon by which they could secure a reasonable reparation settlement. It is almost impossible to believe that the Dawes Committee would ever have been set up or the Ruhr peacefully evacuated if that weapon had not been in the last resort available.

The commonsense course, if politically possible, would have been to negotiate a provisional settlement with France so long as German payments were themselves on a provisional basis, or, in other words, for the duration of the Dawes Plan. If this view is correct, then we are entitled to conclude that the position was only saved by the action, or inaction, of France in refusing to ratify the agreements which had been negotiated until the final reparation settlement had been drafted, while paying without prejudice the annuities stipulated in the agreements in the meantime.

The Young Plan sets up a very intimate connection between the debts and reparation payments, but it is a

one-sided connection, if the phrase may be allowed; if any reduction is made in what the plan designates as out-payments – in effect, sums due by the creditor Powers to the United States – Germany benefits to the extent of two thirds of the reduction in the first thirty-seven years and to the extent of the whole reduction in the succeeding period. Whether inter-Allied debts are finally settled depends in part on the question, which we shall examine later, whether the Young Plan is a final settlement of reparation; the question whether the Young Plan is such a final settlement may in turn prove to depend on the question whether of its own free will the United States Government takes steps at a later date to relieve Germany's creditors.

We may now turn our attention to the third problem which called for settlement – the restoration of normal and friendly relations between the victor and vanquished, the elimination from the international vocabulary in current usage of the terms "Allied and Associated Powers" and "ex-enemy Powers." It had been impossible to secure even a provisional settlement of reparation until it had been rigidly divorced from politics and treated as an economic question. International politics had poisoned all reparation discussion; equally, so long as the reparation question was a burning one it had effectively poisoned international relations. With reparation removed from the arena of daily conflict and administered with a conspicuous absence of friction on business lines, it was possible to make a considerable advance towards the establishment of sound international relations. Without progress in this sphere there could be little hope that the right atmosphere would be created for the final settlement of reparation at a later

stage; the paths to be followed to secure progress in the political and economic departments were for some distance separate, but they were parallel, and they would clearly begin usefully to converge again when a certain distance had been travelled.

The main obstacle to the political reconstruction of Europe was the occupation of the Rhineland, and the main obstacle to evacuation was France's haunting sense of insecurity, which we have already discussed. The first events in this sphere which followed the inauguration of the Dawes Plan and the evacuation of the Ruhr were not of a nature to encourage hopes of speedy appeasement. The Treaty of Versailles divides the occupied territory of Germany into three zones, scheduled for successive evacuation at the end of five yearly periods, if Germany has in the meantime fulfilled all her Treaty obligations. The first zone, of which Cologne was the headquarters, was therefore contingently due for evacuation in January 1925. Just before the end of the calendar year 1924 the Allies let it be known that the programme of disarmament laid down earlier in the year could not be regarded as satisfactorily performed, and that it was already obvious that it could not be satisfactorily performed in time to permit of evacuation in January. An acute controversy between the Allies and Germany arose, and both sides were guilty of faults of presentation. The Germans, in popular discussion at least, represented the non-evacuation as a breach of the Treaty, and as a grave impediment to the execution of the Experts' Plan, while the Allies, in their early handling of the problem, did not succeed in conveying the impression, as they might honestly have done, that they were exceedingly anxious to evacuate if

public opinion could be satisfied that Germany was materially disarmed. Both sides were guilty of other errors of a less formal character; the Allies made a certain number of demands which could not be fulfilled except at the cost of sacrifices by Germany entirely disproportionate to the end desired, while Germany erred in the other direction by cavilling at, or procrastinating in the execution of, measures well within her capacity. To understand the feeling aroused by this dispute, it is necessary to bear in mind two important factors: in the first place, M. Poincaré had often publicly maintained that the date as from which the five years of occupation for the Cologne zone were to begin to run must be placed long after the ratification of the Treaty in 1920, owing to Germany's breaches of the Treaty, and that the French Government had never publicly repudiated or renounced this doctrine; in the second place, when once disarmament had been completed the continuous supervision of German armaments passed, under the Treaty, from the Allies to the League of Nations, while Germany was as yet not a member of the League, and there was no concerted policy among the Allies, still less between the Allies and Germany, as to how the League was to acquit itself of its new task. From the purely political point of view, the position was not so consolidated that either the Allies or the moderate parties in Germany could regard with complacency the gift of ammunition to the Nationalists.

Matters were not to outward appearance improved by the fact that a new German Government was formed in December 1924, in which the Nationalists were represented. The association of the Nationalists in the Government was an experiment, and it proved to be a failure;

that the failure was not expensive was due to Stresemann's continued occupation of the Foreign Ministry, and his consistent and selfless devotion to the cause of international reconciliation. The first action which the new Government took was expressly designed to allay suspicion of Germany, and to create a normal peaceable atmosphere in her foreign relations; through the mouth of Herr Stresemann it offered France and Belgium a Security Pact, renounced all claim to an alteration of the western frontier of Germany as defined by the Treaty of Versailles, and undertook that at no future date would an attempt be made to disturb the eastern frontiers by force of arms, though it was left to be inferred that adjustments might be sought by other means. That such an offer should have been made in the early days of a Government in which the Nationalists were strongly represented seemed, for the moment at any rate, to be a tribute to the perspicacity of the party leaders who had insisted on such representation; though finally the Nationalists behaved with as little sagacity in the matter of the Security Pact as in connection with the passing of the so-called "Dawes" Laws, they were at any rate associated with the offer, which owed a large part of its very great significance to this association; not much imagination is required to picture the political uproar which the offer would have aroused had the Nationalists been in official opposition. The immediate reception of the offer was cool and suspicious in France and not too sympathetic in England; in France there were murmurs of *timeo Danaos et dona ferentes*; in England influential personalities in Conservative circles were reputed favourable to something perilously like the pre-war one-sided understanding with Germany's late

enemies, while the Labour Party regarded the offer as an obstacle to the development of the general peace and disarmament plan enshrined in the so-called "Geneva Protocol" which had been drawn up by the League of Nations.

The German proposal was made in a form which required and, indeed, invited discussion, and discussion in fact proceeded, at first in somewhat desultory fashion, for some months. In the further trial to which international sympathies were shortly to be subjected the fact that the offer had been made, and was under discussion, was of paramount importance, and perhaps alone prevented a reaction in public opinion in France and England which would have been fraught with much danger to the development of the Experts' Plan.

The further strain in question was imposed by the death of President Ebert and the election of Field-Marshal Hindenburg as his successor. It can excite no wonder that the choice of Hindenburg for the highest official position in Germany was received, not only in France, but also in England, and even in America, with disquietude and discouragement; in these countries he was regarded as the personification of Prussian militarism, and his election was interpreted as an indication that the old Adam was not dead and the spirit of 1914 not yet exorcised; the moral disarmament which Europe craved had receded.

This reaction was entirely natural and entirely inevitable, but it proved to be unjustified by the further development of German policy. The very circumstance which inspired alarm – the size of Hindenburg's majority – was, rightly regarded, of favourable omen. He received

votes from all sections of the population, and even from Communists. No one can complain if he was almost a legendary hero in his own country, and it cannot be denied that his election was largely an instinctive assertion of German national consciousness. But he had other Roman qualities which go far to account for his success: he was above and outside party politics; he had never descended to the stupid level of the soldier-politician from whom Germany had suffered and was suffering; his life was conspicuous for its unswerving loyalty, and he had Plato's qualification for office – a sincere unwillingness to accept it.

From the first day of his Presidency onwards he bore himself with that unquestioning and uncompromising loyalty which seems to have been the very foundation of his character; and he inspired deep affection and deep respect in those officials, carrying out policies which defied so many traditions dear to him, who were in daily contact with him. His loyalty to the German Republican Government cannot be better indicated than by the observation that he had been in office no long time before the extreme Nationalists were openly expressing their disappointment in him, and would doubtless have pursued him with the vilification directed against his predecessor had they dared.

These aspects of the matter could not be realised abroad in a twinkling of the eye, nor was it altogether easy to grasp that if real progress was to be made in the path of understanding with Germany it was desirable, and perhaps even essential, that the Conservative party in Germany should directly share in the responsibility for each step taken, rather than be forced, not only by natural

inclination, but for the sake of party advantage, to adopt an attitude of bitter obstruction.

The negotiations started on Stresemann's initiative were, after the usual vicissitudes, brought to a successful conclusion at a meeting of the Powers concerned, held in Locarno in October 1925. Pacts were prepared for signature in London in December after ratification by the Parliaments of the countries concerned: they were to come into force after Germany had requested and been accorded admittance into the League of Nations, with a seat on the Council.

In Germany the next stages were not free from political difficulty. The Nationalists, who, as members of the German Government, had been jointly responsible for all the negotiations, took fright at the last moment, and with characteristic cowardice and short-sightedness went into opposition, taking with them those of their members who were in the Cabinet. The process of reconciliation with France, which was, viewed from a certain angle, the formal recognition of defeat in the war, had gone too fast for the supporters of the Nationalist party in the constituencies; the backwoodsmen who are to be found in the right wing of the Conservative party in any country had no such love of peace for its own sake that they were prepared to make sacrifices for it, and they argued that Germany had parted with her freedom of action without receiving a sufficient price. By one of those curious political conjunctures which make strange bedfellows, they received support from Russia, which professed to regard Locarno and the entrance of Germany into the League as merely steps in a process designed to secure her own isolation, and at any rate perceived that Germany was deliberately turning

her eyes westward and identifying herself with Europe. A more powerful weapon in the hands of the Nationalists was the continued presence of the Inter-Allied Military Control Commission in Berlin and the continued non-evacuation of the Cologne zone of the Rhineland. Germany had been encouraged to hope for favourable repercussions, but, so far as could be seen, the spirit of Locarno, which furnished the theme for every pulpit and every platform, was a phrase void of content.

An exchange of diplomatic correspondence between Germany and the occupying Powers was instrumental in narrowing the field of conflict on the disarmament difficulties, on which evacuation depended, and the German Government was strengthened by the decision of the Ambassadors' Conference on the 14th November to begin the evacuation of the Cologne zone at the beginning of December, and to introduce various relaxations into the administration of occupied territory. After some tactical disputing as to whether a two-thirds majority was required and a decision that it was not – a decision which perhaps relieved the Nationalists of some embarrassment by allowing them to vote against ratification without endangering national interests – the Treaties of Locarno were ratified in the Reichstag by 291 votes to 174. The Treaties were signed at the beginning of December in London, and all preparations were made for Germany's entry into the League and election to the Council in March 1926. The pretensions of Poland and other States, and the incompetence of Anglo-French diplomacy, combined to make the March meeting a fiasco and to prevent the election of Germany to the Council, and therefore to postpone her entry into the League. The history of the episode is

a sorry one, but its details are irrelevant to our object; in a very difficult and humiliating position the representatives of Germany behaved with great dignity and tact, to the enhancement of their own prestige. The signatories of the Locarno treaties were at pains to put upon public record their view that the election of Germany was merely postponed until the September meeting, and that in the meantime matters would, so far as possible, proceed as if the treaties were in full operation. The admission of Germany and her election to the Council in September were the formal conclusion of the process which for practical purposes was completed on the ratification of the treaties; there was no further hitch, though a smooth passage was only secured by the defection from the League of certain States whose *amour propre* had been wounded, and after a large amount of political haggling and chaffering in the lobbies of the League which caused acute misgivings among its best friends.

The Dawes Plan and Locarno were the two great milestones on the return march to civilisation after the war – a slow and wearisome march, made with groping feet, and painfully diversified by long and wasteful detours. Without the Dawes Plan there would have been no Locarno; without Locarno the further evolution of the plan would have been thwarted. The plan was a first step towards restoring Germany's financial independence, by the restoration of her economic self-respect; Locarno was the beginning of the process which was to restore her political self-respect, and enable her to take her place in the European family of nations. Her entry into the League of Nations was the outward and visible sign that the League was not a league of ex-Allied Powers, and could grow up

to the measure of the tasks allotted to it. Her presence there is a guarantee that problems in which she is interested shall not be settled without at any rate adequate discussion in the forum of world opinion.

The task of re-establishing proper relations between Germany and her former enemies was far from being completed by Locarno; the problem of Germany's disarmament was unsettled, and the Military Control Commission remained for some time in Berlin, though the Air Control Committee, which under the Treaty was more or less a permanent body, had been withdrawn – another instance of the truth of the French saying: "Il n'y a que le provisoire qui dure"! Further, the whole question of the occupation of the Rhineland was inevitably raised, and it was evident that reconciliation could not be more than partial while foreign troops, whose presence was liable to give rise to inflammatory incidents any and every day, were in possession of German soil. But the indispensable foundation for further progress had been laid by the guarantee of France's frontiers, and the consequent removal of that spectre, which haunted French minds and distorted French judgment, of future German irruptions which might find France isolated.

The best possible tribute to the essential wisdom and fairness of the Locarno Treaties was paid to them by the die-hards of France and Germany, who agreed in attacking them as one-sided – though they looked at opposite sides. The French Press of the extreme right lamented bitterly that France had given everything away and received nothing in return; the German Nationalists discovered in them nothing but German sacrifices. The greatest danger for their future lay in attempts to translate

their spirit into concrete realisation at a pace which outran public opinion. In Germany the retirement of the Nationalists into opposition created a situation in which the exigencies of internal politics required constant pressure upon the German Government to pluck fruit that was not yet ripe; to change the metaphor, the more impatient spirits in Germany were too anxious to cash the proceeds of Locarno at once, instead of regarding it as a long term investment.

Moreover, the vexed question of responsibility for the war still smouldered, and the extreme Nationalists, always ready to throw sand into the bearings when the appearance of perfect lubrication annoyed them, consistently made attempts to raise it. Public opinion at large, however, seemed to be content with the general tendency observable abroad to disculpate Germany from the *sole* responsibility for the war, and prepared to recognise that nothing was to be gained at the moment by pursuing a discussion of the past which was more calculated to envenom the present than to further the process of improvement which had already set in. The subject might have been open for a more academic debate if the solemn arraignment of Germany had not appeared as the first article in the Reparation Chapter of the Treaty of Versailles, and therefore by inference figured as the justification of the demands for reparation made upon her. It was inevitable that every reopening of the discussion would be regarded in the countries which had suffered most from the war as an attempt to escape liability for damage, however extended within Germany itself was the circle of those who felt that a lost war involved payment apart from all imputation of responsibility, and by more or less general

consent the question was left to slumber, if not to sleep, until a sufficient interval had elapsed to permit of a more dispassionate and historical judgment. As in the question of the Experts' Plan official Germany had the wisdom to see that discussions as to its effects and meaning and its eventual supersession by a final settlement were best left to the other interested parties, so there was a growing recognition that Germany had clearly said as much as could profitably be said by her on war guilt, and that the workings of European conscience outside Germany were of much more value than any quantity of further German propaganda. There was a general tendency abroad to cease recrimination and discourage everything which revived the hatreds of the war, and even M. Poincaré put some water into his wine.

The continued occupation of the Rhineland was a more open wound and its discussion therefore presented a greater degree of actuality. At the League meeting in September, M. Briand and Herr Stresemann took advantage of the relationship which had been established at Locarno and Geneva to have a personal conversation, which took place at Thoiry, ranging over the whole field of Franco-German relations. Naturally enough, attention would appear to have been concentrated on the occupation, and in the optimism engendered by a sunny clime, a good lunch, and remoteness from the world represented by journalists, the problem would seem to have presented itself to the two Foreign Ministers as nearer a solution than the facts warranted. While neither Minister committed, or had power to commit, his own country, they are reported to have contemplated the possibility of trading earlier evacuation against a capital payment by

Germany to France on reparation account, to be effected through the marketing of a block of the Railway Bonds which formed part of the security under the plan. The *quid pro quo* offered was attractive to France at a moment when her financial difficulties were acute, and foreign money, which was necessary to support the franc, exceedingly hard to come by. There is nothing so well calculated to strike terror into the heart of the conscientious official than the spectacle of two Ministers discussing a thorny question in the absence of all technical advisers, and the Thoiry conversation showed that the terror is not always ill-founded. Neither Briand nor Stresemann was qualified to appreciate the financial aspect of the solution which they contemplated, with the result that they were more or less tentatively agreed on a bargain which Germany, with all the goodwill in the world, was in no position to fulfil, as Stresemann was not long in finding out after his return to Berlin.

The principal objections to the sale of a block of the Railway Bonds were as follows. In the first place, they were the joint property of all reparation participants, and it was to be anticipated that other Powers would desire to have their share of any capital payment which it was possible to make. Under these conditions it was improbable that a sum could be raised of such magnitude that the fraction due to France, big as that fraction was, would be a sufficiently attractive bait to induce her to agree to early evacuation. More importantly, from the point of view of those interested in the development of the plan, there was grave objection to selling the Railway Bonds in small parcels. The process might depreciate the market value of the bonds unless the first block was sold at a very

unattractive price; apart from this danger, the bonds, in the final settlement for which all sensible people hoped, if kept intact, might be a most valuable part of the machinery for converting Germany's debt to the Allies into an obligation to private bond-holders. But the final difficulty was a practical one of an insuperable character: there were no purchasers for the bonds. The capital markets of the world were quite incapable of handling an issue of the size unless New York played a leading part, and the New York market was shut to France so long as she had not ratified the agreement for the funding of her American debt; it would therefore have been not at all disposed to promote a transaction which, nominally German, was designed solely to give France funds which she could not secure on her own credit.

Nothing therefore came of the suggestion made across the coffee-cups at Thoiry, and as time went on it became of less and less interest to France. For one reason, M. Poincaré was gradually establishing a position of complete ascendancy, and could hardly be credited with any burning desire for early evacuation; for another, the course of France's financial recovery gave her command of such large sums abroad that the prospect of obtaining a substantial capital amount from Germany, and thus discounting future income, lost much of its attractiveness.

This abortive discussion did not really further the cause of evacuation. It placed the case for evacuation on a wrong basis. Germany was disarmed; the security of France was safeguarded further by the Locarno Treaties; an occupation which was destined under the terms of Treaty to be further restricted in 1930, and to come to an end in 1935, could at the best furnish additional security only in the

period when danger was least to be anticipated. Continued occupation could only nourish the unfriendliness, suspicion, and misunderstanding which were the real menace to peace. If evacuation were to take place, it could therefore take place on its own merits, and should not have been the subject of higgling. With every year which brought evacuation under the Treaty nearer, Germany had less inducement to buy it with concessions, while, on the other hand, the moral value of any gesture which France might make was correspondingly diminished.

Something was, however, accomplished even in this sphere to purify the atmosphere. The Conference of Ambassadors shortly afterwards declared that Germany had substantially fulfilled her disarmament obligation, and the Military Control Commission was disbanded in January 1927, after dragging out a temporary existence for seven years in the capital of a defeated country. Further, a promise was made, and carried out in the course of the year, that the strength of the occupying forces should be substantially reduced.

For some time the question of evacuation slumbered fitfully. It could not be allowed to rest, for the want of a solution left Franco-German relations in an unsatisfactory condition, and gave Stresemann's adversaries, roughly identical with the opponents of a policy of fulfilment and understanding, a stick with which to beat him whenever they were so minded; on the other hand, to open negotiations on the subject before public opinion in France was advanced enough to enable Briand to make concessions was to invite trouble by merely embittering the atmosphere.

The official German view was put on record: Germany

was entitled to demand evacuation as of right under Article 431 of the Treaty of Versailles, which runs: "If before the expiration of the period of fifteen years [fixed by Article 428 as the period of occupation] Germany complies with all the undertakings resulting from the present Treaty, the occupying forces will be withdrawn immediately." Germany was disarmed, she had at Locarno solved the problem of security, and by accepting and executing the Dawes Plan she had complied with undertakings relating to reparation. Furthermore, an Inter-Allied Declaration, signed on the 16th June, 1919, by Wilson, Clemenceau, and Lloyd George, had stated: "If Germany at an earlier date (i.e. before the expiration of fifteen years) has given proofs of her goodwill and satisfactory guarantees to ensure the fulfilment of her obligations, the Allied and Associated Powers will be ready to come to an agreement between themselves for the earlier termination of the period of occupation."[1]

The legal case is, to say the least, highly vulnerable. On the German view it is hard to explain the force of Article 429, which provides for progressive evacuation in three steps, each step only being taken "if the conditions of the present Treaty are faithfully carried out." The same conditions cannot give a legal claim both to partial and to complete evacuation, and some difference of meaning must be sought between "complying with all the undertakings" and "faithfully carrying out the conditions" of the Treaty. The obvious suggestion is, the former phrase is meant to cover the complete liquidation of German reparation obligations, and to the mind of the writer the

[1] *Woodrow Wilson and War Settlement,* by Ray Stannard Baker, Vol. II., p. 117.

suggestion is correct. Astonishing as it appears in this year of grace, the statesmen, politicians, and financiers – stated in no order of precedence – assembled in Paris in 1919 had envisaged the possibility of Germany's reparation debt being entirely mobilised in the hands of persons other than the Governments of the creditor Powers, and the reparation indebtedness thus being extinguished before the expiration of fifteen years.

At the September meeting of the Council of the League the German Reichskanzler, Herr Müller (owing to illness, neither Stresemann nor Chamberlain were present), opened negotiations on the subject of evacuation with the Powers concerned. He took his stand on the legal claim, though he supported it by the undertaking of the 16th June, 1919, to which reference is made above. He would probably have done better to base the claim to evacuation exclusively, or almost exclusively, on moral and political grounds. The French spokesman, Briand, contested the legal argument, and maintained that the fifteen-year occupation was at once a military, political, and financial guarantee. The British Government declared at a later date, reluctantly and only under pressure from the opposition, that, on the advice of the Law Officers, they also must reject the legal claim, though they made it plain that they had desired evacuation on other grounds. It was in fact the British representative, Lord Cushenden, who proposed during the Geneva discussions that the legal dispute should be set aside as incapable of accommodation, and an effort made to construct a practical plan which should give satisfaction to both sides. At his instigation, agreement was finally reached on three points: firstly, on the opening of official negotiations for the earlier evacuation

of the Rhineland; secondly, on the necessity of reaching a final and definitive solution of the reparation problem, and on the appointment to this end of a committee of financial experts; and thirdly, on the principle of the institution of a Commission of Conciliation for the Rhineland.

The examination of the three questions was to be parallel, and their interdependence was not officially claimed or admitted. But the dependence of evacuation on a final solution of reparation was by this method recognised *de facto* though not *de jure*, and the revision of the Dawes Plan, which was thus set going, appears to be almost incidental. The significance of the episode in relation to reparation must be examined later; to complete this cursory review of political events it need only be added that an examination of the evacuation problem in fact remained in abeyance until the new expert committee had reported and its recommendations been accepted in principle at the Hague in August 1929, when it was agreed that the evacuation of the second zone should be begun at once, and of the third when the new reparation plan had been put into execution; the proposal to set up any special and permanent machinery outside the Locarno Pact to supervise the continued observance of the Treaty provisions in the Rhineland was allowed to lapse, and the Commission of Conciliation was stillborn – if indeed it ever reached so advanced a biological state. Evacuation was in fact completed by the 30th June, 1930.

CHAPTER VI

GERMANY'S ECONOMIC RECOVERY UNDER THE DAWES PLAN

I

The conditions which prevailed at the time the Experts Committee of 1924 were called into consultation have been summarily described in a previous chapter. It is not proposed to make any detailed examination of the German economy during the succeeding years, but merely to make a rough sketch of the general course of recovery and to supplement it by a selection of the more important statistical data an appreciation of which is necessary for an understanding of the conditions which faced the Experts Committee of 1929. Attention is concentrated mainly on the years 1924 to 1928, the first four years of the plan, since it was on the experiences of those years that the Committee, meeting in the course of the fifth year, must have based its plan, so far as past experience could be regarded as furnishing reliable guidance in the determination of the reparation problem. Those who desire more exhaustive information may be referred to the periodical reports of the Agent General for Reparation Payments, and those who desire a comprehensive picture of Germany's recovery, seen in relation not only to post-war or inflation

conditions, but also to 1913, will obtain what they require in Professor Angell's *The Recovery of Germany*.[1]

While the Dawes Committee was sitting and during the interval which elapsed before their plan was brought into operation in September 1924, German conditions remained in a state of uncomfortable and somewhat uncertain stability. Economic life was frozen for want of capital, and the thaw only set in when the Dawes Loan was floated, and by its success re-opened the capital markets of the world to Germany at rates which, though high, were moderate in comparison with those prevailing in the years immediately preceding. The feeling of relief from the nightmare of inflation engendered, indeed, a slight excess of optimism; there was a general failure to realise abroad, perhaps, as well as in Germany, the extent to which Germany's economic constitution had been undermined and the slow and painful course of convalescence which remained to be endured.

It was not long before events dispelled any facile optimism and threw a vivid light on the readjustments which the new situation demanded. In May 1925, when political events mentioned in the last chapter – the controversy over the evacuation of the first zone, the formation of a new Government in Germany, and the election of Hindenburg – had already produced a feeling of unsettlement and a stoppage in the inflow of foreign capital, the Stinnes concern collapsed, only prompt and energetic action by the big banks prevented a general castatrophe, rumours circulated freely as to the precarious position of other large undertakings, and a veritable *crise de confiance* set in.

[1] *The Recovery of Germany*, by James W. Angell, Yale University Press, 1929.

The Stinnes failure was alarming, but it was in reality the beginning of a painful but necessary process of purification, which had to extend widely before it was complete. It attracted attention by its enormity and flagrancy, but its essential interest is to be found in those features which did not particularly distinguish it from the wave of failures which presently inundated Germany. It is true that in this case the general economic difficulties were intensified by the unwieldly nature of the concern. The Stinnes properties were in no sense an organic whole, and Stinnes' interest had been concentrated rather on the joy of purchasing than of organising and developing; there is something, from the point of view of business administration, to be said for a vertical trust, and something to be said for a horizontal trust, but there is no economic justification for collecting a job lot of businesses – iron and steel, coal, shipping, newspapers, hotels, motors, etc. The collection had been built up by a ruthless and unusually successful employment of the opportunities offered by inflation; properties were bought up by the use of borrowed money, eventually repaid at a fraction of the value which it had at the time when the loans were contracted, and when stabilisation came Stinnes was in possession of a collection of bargains picked up at outrageous prices (it is said, though it is probably a picturesque exaggeration, that the Esplanade Hotel in Berlin cost him a few shillings).

The business had no liquid funds, all its capital being sunk in real property, and in this respect it did not differ from the generality of business undertakings; it was not realised that the position could only be maintained by a reversal of the process which had created it, to take

account of the new importance which money had again acquired, and in this respect again the case was not peculiar, for the change of policy was commonly adopted only when buyers for money had disappeared; it is obvious, indeed, that the general adoption of the change of policy, late or early, was in itself bound to produce a state of affairs which would defeat the purpose of the change, and that a general flight *to* the mark from properties and commodities would create a world of sellers without buyers.

The close of the year 1925 found Germany in the very trough of a depression, which was in effect merely the aftermath of inflation. Hundreds of firms which had been bred by the unhealthy conditions of the years preceding were forced into bankruptcy. It is significant that, according to a newspaper calculation, over 80 per cent. of the firms driven into bankruptcy during this period had come into existence between 1921 and 1923, and over 50 per cent. were distributors. Not only were the unhealthy firms dying like flies; the sounder firms were busy re-organising, or, to use the more fashionable word "rationalising"; they curtailed unremunerative activities, dismissed surplus staff, concentrated, and combined. The year saw an enormous concentration in the bigger industries, and in particular in the manufacture of dyes and steel; it witnessed also the beginning of the process by which the larger combinations entered into agreements with similar combinations in other countries, foreshadowing the growing internationalisation of industry.

Unemployment took on the dimensions of a serious social problem, the percentage of unemployment among trade union members rising from 4.5 in September 1925, to 19.4 in December 1925, and to 22.6, the peak figure,

in January 1926. The figures were alarming, but it may be remarked in passing that on a critical examination they do not appear so serious as at first sight. In the first place, before the war at any given moment there were roughly a million men employed in and for the army or navy, and therefore employed unproductively and living on the production of the rest of the community. So far as the economy of Germany was concerned, and leaving social factors out of account, they were less of a burden drawing rather meagre unemployment allowances than being fed and clothed and housed as soldiers or sailors or receiving economic wages for producing rifles or battleships. In the second place, it may be doubted whether at the worst moment there were not as many people actually employed, allowance being made for loss of territory, as at any time before the war. Between 1907 and 1925 the number of persons employed in trade and industry increased by 28.5 per cent., and the population only by 13.5 per cent. The problem was therefore to find work for the natural increase in population and for the increase through impoverishment of the proportion of the population desiring work; the number of unemployed was no indication of any weakness in the economic structure of Germany itself, and so far as it was not a temporary phenomenon arising out of the *Sanierungsprozess* correction might legitimately be hoped for when the economy of the world as a whole had adjusted itself.

The depression gradually worked itself out, and the rapidity of recovery was proportionate to the violence of the crisis. As the spring of 1926 approached the weather began to clear. Wholesale prices had been materially decreased; the volume of unemployment exhibited a slight

improvement. The rate of interest fell and money became abundant; security prices rose – probably too rapidly.

The business world was beginning to pluck up courage at the moment when Herr Reinhold introduced the budget for 1926–7 and administered the necessary stimulant. The preceding budget had erred by levying too much taxation; the error was perhaps excusable in the uncertainty which prevailed at the time of its introduction, but it had some painful consequences. The State was rich at a moment when the taxpayer was poor; money was withdrawn from pockets where it might have fructified, and was either spent unproductively or lent to the money market, thus weakening the Reichsbank's control over credit. Herr Reinhold, having fallen heir to a considerable surplus from the financial year 1925–6, inaugurated a new policy. He reduced taxation to an appreciable extent, and with the help of his surplus funds and his announced intention to borrow if necessary for productive purposes was able to trade on a very narrow margin.

With conditions rapidly improving and confidence gradually returning, Germany received a gift from abroad which probably was decisive in swinging the pendulum in the favourable direction. The prolonged dispute in the British coal-fields was a heaven-sent opportunity of which full advantage was taken. German coal was exported in large quantities to England and English export markets. Accumulated stocks in the Ruhr were worked off and production was enormously increased. German manufacture in general benefited from the difficulties under which English industry laboured owing to the scarcity and high price of coal. When the dispute was ended the German coal trade had concluded contracts for so far ahead that

it was many months before the profits which they derived from the dispute had all been realised. Meanwhile the railways had to work at full pressure to carry the increased production of coal, and although coal freight is not itself the most remunerative the second half of the year brought receipts which were sufficient to relieve the Railway Company of any immediate anxiety. The year 1926 ended in a healthy condition and amid general confidence that the worst was over and that the depression would be succeeded by a period of trade expansion.

After the turn of the year 1926–7 unemployment, which, despite the general improvement in economic conditions, had been severe through the winter, began to decrease; rationalisation, the first effect of which is necessarily to throw redundant hands and heads on the labour market, was making itself felt in increased production, and by the middle of August there were not more than half a million unemployed, as compared with nearly two millions at the worst period in the winter.

The summer of 1927 marks the highest point of Germany's prosperity during the period under review. Thereafter changes in business activity were slight and gradual, but on the whole in the wrong direction. For about a year business men and economic observers were uncertain whether trade was to continue steadily along the level attained or was trembling on the brink of a slump. The long-drawn-out negotiations over the institution of the Young Committee produced a feeling of uncertainty which was not conducive to expansion; the alarums and excursions of the Committee period itself in 1929 were positively mischievous, and the subsequent suspense of some months, coupled with much real disappointment

with the Committee's recommendations, created a general policy of *malaise* which was aggravated by European monetary difficulties consequent upon the prolonged speculative boom in New York.

II

When we turn to the examination of figures we shall expect to find that the indications of progress effected in Germany between 1924 and 1928 were remarkable, and we shall not be disappointed. We must not overlook, however, the nature and limitation of the comparison involved. The examination of a patient who has just survived a long and wasting fever will present a gloomy clinical picture; and examination four years later is likely to show a striking improvement in the heart's action, blood-pressure and blood count, breathing, weight, and all other physical functions. We should not thereby be justified in assuming that our patient was the man he used to be, or in a condition to indulge in as great, not to say greater, activities than before he took to his bed of sickness. His earning capacity may have been absolutely impaired, and his competitive power relatively impaired by the progress made by his neighbours while he was out of the market. The family physician will want to study the record which he kept of his physical condition before the onset of illness and institute a further comparison, and we shall do well, when registering Germany's progress since 1924, to glance back, whenever possible, at pre-war conditions.

Production figures are from all points of view the most encouraging of those which we shall examine. According to the Institut für Konjunkturforschung the index of production covering fourteen commodities if July 1924 to June 1926 = 100 was 123.7 in 1927, 124.6 in April 1928, and 117.2 in September of the same year. This improvement is a real one, for according to the latest estimate (which applies, however, only to the principal industries and is therefore not strictly on all fours with the figures just quoted) physical production in 1927 was 15 per cent. greater than in 1913. At the same time, and this is important, the amount of this production exported, allowing for the change in the value of gold, was only 85 per cent. of 1913 exportation, and every three marks of the production exported had involved two marks of importation.[1]

If we turn to statistics of national income, we find similar signs of progress. The significance of a figure for 1924 is diminished by the facts that it can scarcely reflect the benefit of the change which ensued from the restoration of stable conditions and that the estimates vary from 20–22 milliards on the basis of 1913 prices, according to Helfferich, to 42.5–45.9 milliards on the basis of 1924 prices according to Rogowski,[2] or 49 milliards on the same basis according to Angell. The last mentioned authority estimates the income for 1928 at 65 milliards,[3] which we may compare with Helfferich's well-known estimate of 43 milliards for 1913.[4] This corresponds, when allowance is

[1] Angell, op. cit., pp. 180, 181.
[2] *Das Deutsche Volkseinkommen*, Berlin, 1926.
[3] Op. cit., p. 320.
[4] *Deutschland's Volkswohlsband, 1888–1913*, 7th edition.

made for the change in prices, to an increase of 12 per cent., or to a *per caput* increase, when the same allowance has been made, of 15.5 per cent., roughly identical with the increase in production. We must not, however, overlook the fact that the 1928 figure would appear to include as income the proceeds of foreign loans raised in the year, interest on which is a charge on future income, whereas the 1913 income included net receipts from foreign investments.

As regards the amount saved out of income, it was estimated by Helfferich at about 10 milliards per annum for each of the years 1911, 1912, 1913. Angell's estimate of *domestic* savings for the five years 1924 to 1928 is about 24 to 25 milliards, of which he would ascribe 16 to 17 milliards to the years 1927 and 1928. On the basis of 8½ milliards the savings are only some 13 per cent. of income, as compared with nearly 25 per cent. in the last years before the war. Consumption is thus absorbing a far greater share of the national income, which is merely the reflection of the destruction of accumulated wealth, and of the changes in the distribution of income. The amount saved (apart from the fact that about a sixth part of it is estimated to have been invested unprofitably in agriculture) was obviously not nearly sufficient for the restoration and development of industry, and in the same period, according to the same authority, domestic savings were supplemented by the import of foreign capital to the tune of 15 to 16 milliards net. Lumping domestic savings and foreign capital together, the amount available for investment in the period under review was, allowance being made for the change in the value of gold, considerably less than in the period before the war; that the requirements were

urgent is sufficiently demonstrated by the high rate of interest which prevailed in Germany after the Dawes Plan came into operation and until in 1930 there was a drastic and world-wide reduction in rates.

If we turn to German budget figures we again find evidence of returned strength. The revenues of the Reich in 1924–5 amounted to 7,757 million marks, and the estimate of revenue for 1928–9 was 9,548 million marks, or an increase of about 23 per cent., in spite of the fact that taxation has on the whole become less onerous in the interval. The increase in revenues has, however, hardly kept pace with the increase in expenditure, which amounted in 1924–5 (a year of over-taxation) to 7,220 million marks, and was estimated to amount in 1928–9 to 9,736 million marks. A comparison with 1913–14, where revenue and expenditure balanced at less than $3\frac{1}{2}$ milliard, would be almost meaningless, owing to the administrative changes effected at the time of the Revolution and the redistribution of powers and obligations between the Reich and the local areas. There can be no doubt, however, that the total cost of Government exhibits a remarkable, and from some points of view an unsatisfactory, increase; it has been estimated, after allowing for changes in values, at as much as 65 per cent.[1]

It is more than probable that part of the increase is unjustified; it would be impossible, at any rate, for any defender of German administration to prove that the total expenditure was justified, for a growing share of Reich revenues has been handed over to local authorities without any assurance that it has been distributed according to needs. The system of financing the States was sharply

[1] Angell, op. cit., p. 316.

criticised in the Dawes report, and recurrent animadversions upon it can be found in the series of reports issued by the Agent General for Reparation Payments. It is impossible to resist the conclusion that some public expenditure has been wastefully incurred and has thus aggravated the main problem of rebuilding capital. At the same time, it may be doubted whether the amount wasted is of material importance if we are considering the problem of Germany's capacity to bear the burdens placed upon her; some waste is, in any case, inevitable, and some questionable expenditure is certain to be incurred by Finance Ministers in minority governments or heterogeneous coalitions. To a great extent the increase in expenditure was justifiable and was indeed foreseen by the Dawes Committee. Officials were definitely underpaid in 1924–5 (after which the cost of living rose from 139.8 per cent. of 1913 to 152.3 per cent. in September 1928), and the improvement in their status accounts for much of an addition of 800,000,000 marks to the cost of general administration, while an increase of 600,000,000 marks in the cost of war pensions may be regarded as consequential on the improvement in the status of the active worker; social charges demand 400,000,000 marks more in 1928–9 than in 1924–5, and reparation 1,300,000,000 marks more. The above items alone amount to over 3 milliard marks, or more than the net increase in expenditure.

Before we glance in conclusion at the figures of foreign trade, we may note – and the argument is a plausible one frequently advanced in discussion as to Germany's capacity to pay – that, judged by the above indications of progress, the burden represented by the payment of even the standard annuity of $2\frac{1}{2}$ milliards is not obviously and

strikingly excessive. That annuity is less than 4 per cent. of Germany's national income, and the amount paid in reparation under the Dawes Plan up to the end of 1928, which was just over 6 milliards, is about 25 per cent. of the amount of savings effected. There seems nothing here to justify criticism of the declaration made by the 1924 Experts (which had in its context, however, a rather narrower reference) that "Germany would retain her incentive to develop, as she retained the major part of the advantage of any increase in prosperity." Again the amount of reparation directly borne by the budget in 1928–9 (assuming for the purpose of the argument, without admitting, that the contributions from industry and the railway are different in kind) is only about 12 per cent. of the total estimated expenditure, and the increase in revenues between 1924 and 1928 was much greater than the increase in reparation payments. If we take the standard annuity of $2\frac{1}{2}$ milliards under the Dawes Plan this represents less than 15 per cent. of the total cost of administration, federal and local.

Consideration of the above data alone would thus suggest that regarded as an internal burden the weight of reparation was not excessive, and in so far as the internal and external sides can be legitimately seen in abstraction from each other – a question which we shall have to examine more closely at a later stage – the suggestion would be well founded. The matter becomes more complicated when we turn our attention to figures relating to German foreign trade.

Let us first take the figures[1] of commodity trade,

[1] *Wirtschaft und Statistik*, 2 Mai-Heft, 1929. The 1928 figures are provisional.

excluding deliveries in kind but including specie movements, for the five years 1924–8, which give the following results:

		Million marks
1924	Import balance	2,226
1925	„ „	3,386
1926	„ „	458
1927	„ „	3,598
1928	„ „	2,796
	Total	12,464

An adverse trade balance of almost exactly 12½ milliards is thus disclosed. The total amount paid by Germany for reparation under the Dawes Plan up to the 31st December, 1928, was just over 6 milliard marks; deliveries in kind carried off 2¾ milliards, and roughly another ½ milliard was expended within Germany; deducting these amounts, we are left with a balance of 2¾ milliards for which Germany had to find foreign funds, together with the trade deficit of 12½ milliards, or over 15 milliards in all.

Germany's adverse balance of imports is not, of course, a post-war phenomenon. In the five years 1909–13 the adverse balance averaged for commodities and specie just 1,675 million marks, but interest from abroad alone brought in an average of 972 million marks and other invisible items a further 540 millions net.[1] The net adverse balance was presumably met by the sale of foreign assets, which Germany possessed in 1913 to a value variously estimated at figures ranging between 20 and 35 milliards.[2]

[1] The data for pre-war years are taken from the estimate made by Messrs. Moulton & McGuire, *Germany's Capacity to Pay*, New York, 1923, p. 268.

[2] Ibid., p. 260. The McKenna Committee adopted a figure of 28 milliards.

Between 1913 and 1924, however, such inroads had been made on these foreign assets that at the end of the period they were estimated by the McKenna Committee to amount to not more than 6¾ milliards, including capital of varying degrees of liquidity and presumably varying degrees of rentability. The official figures for interest payments in the German balance of payments from 1924 to 1928 are as follows :

	Million Marks
1924	+ 100
1925	— 100
1926	— 300
1927	— 495
1928	— 735[1]

Over the same period the favourable balance on other invisible items (excluding reparation payments expended in Germany, which have already been subtracted above) amounted to 849 million marks, or an average of approximately 170 million marks ; the sum total of these invisible items is an unfavourable balance of about 700 million marks. From this amount we can deduct 350 million marks for interest on the Dawes Loan, which is already included in reparation payments, and the final result is that Germany had during the period examined to find some item to balance the following aggregate deficit :

	Million Marks
Commodity trade	10,000
Reparation	2,750
Services	350
	13,100

[1] Provisional figure.

There is, of course, only one way in which the account can have been balanced – by the sale of German securities or assets to the foreigner, or the sale of foreign assets already in the possession of Germans. Any balance of payments is largely a matter of conjecture, and when all items have been calculated as exactly as circumstances permit there will always be something on one side or other of the account which must be left as an unknown to balance the account and give the measure of error contained in the other items. Capital movements are admittedly the hardest of all to calculate with any pretence to accuracy, for the only factor for which exact data exist is the amount of foreign loans publicly issued abroad ; to this we must add the net amount of short-term credits extended from abroad to German banks and traders and the value of mark securities purchased in Germany for foreign account and from it we must subtract foreign securities bought by Germans. On an examination of all the available evidence, including information supplied from private sources, Professor Angell[1] arrived at the conclusion that Germany had borrowed abroad 19 milliards gross or 15 to 16 milliard net. Which brings us to the phenomenon on which reparation discussions were concentrated from the time the Dawes Plan was inaugurated until the formulation of the Young Plan ; and they are likely to continue.

[1] Op. cit., pp. 302–3.

CHAPTER VII

GERMANY'S FOREIGN BORROWINGS

There is no passage of the Dawes Report which has been so extensively quoted in the last five years as the following: "For the stability of a country's currency to be permanently maintained, not only must her budget be balanced, but her earnings from abroad must be equal to the payments she must make abroad, including not only payments for the goods she imports, but the sums paid in reparation. Nor can the balance of the budget itself be permanently maintained except on the same conditions. Loan operations may disguise the position – or postpone its practical results – but they cannot alter it." Since the Dawes Plan came into operation Germany has paid some 6 milliards by way of reparation and has borrowed something like twice as much. Have these loans disguised the position, or have they postponed the practical results of the plan? Or, since the Dawes Committee was evidently talking of the "long run," are they merely a transient phenomenon, an incident of the period of adjustment? Is there, in fact, a transfer problem, or is there not? We shall postpone till a later chapter an examination of the main controversy as to the existence of a transfer problem, and examine first other considerations raised by Germany's debtor position which have been in the forefront of discussion.

The Dawes Committee knew that Germany required foreign funds, and indeed recommended an initial foreign loan as an integral part of their scheme. It may safely be stated that they did not foresee that such a volume of loans would be contracted, and their failure to foresee it may be ascribed in the main to two causes.

In the first place, it was rather generally believed that while Germany needed liquid capital to put the machinery of industry in motion, the machinery itself was the most modern available, and adapted for the exploitation of German potentialities. "Ever since 1919," the Experts remarked, "the country has been improving its plant and equipment; . . . the industrialists have been enabled further to increase an entirely modern plant, which is now adapted in many industries to produce a greater output than before the war. Germany is therefore well equipped with resources; she possesses the means for exploiting them on a large scale; when the present credit shortage has been overcome, she will be able to resume a favoured position in the activity of a world when normal conditions of exchange are gradually being restored." Let us remark first of all that there has been uncommonly little done to restore normal, if by normal we mean pre-war, conditions of exchange. It is true that the abnormal conditions produced by depreciating and fluctuating currencies have largely disappeared, but the multiplication of Customs frontiers on the new map of Europe remains a problem, and there has been very little unemployment since 1924 among tariff builders. Germany's enlarged productive capacity, which has its counterpart in other countries which built up or extended industries to meet war needs or replace sources of supply cut off by war, could only be

employed if trade expanded to dimensions considerably exceeding those of pre-war days. Moreover, German industrial equipment was *not* the last word in perfection. Much of this equipment had been constructed for no better reason than that during the inflation it was better to buy anything than to hold marks, and with stabilisation it had to be scrapped. The war had shut Germany off and protected her industry from the health-giving breezes of competition; inflation was in this respect merely a continuation of the war period, for no one could sell foreign goods in a country where wages were low measured by any standard, and derisory when measured on a gold basis. And the excessive cheapness of labour meant that it was possible to dispense with labour-saving machinery which became absolutely essential when the mark was stabilised and production again became competitive.

Germany's need of foreign funds, not merely to provide liquid capital, but also to renew equipment, had therefore been underestimated, and this is the first reason why the magnitude of the sums borrowed by Germany has been surprising. The second reason is that few would have believed in 1924 that lenders for such sums would be forthcoming. Let us quote as evidence words written by an authority of international reputation, Mr. Moulton, in a critical study of the Experts' Plan which was published in 1924: "So far as new foreign investments in, or loans to, Germany are concerned, they will be quickly enough checked by Germany's inability to meet the interest obligations for want of an export surplus of sufficient size. The Expert Committees admit that there is no assurance whatever that Germany can develop a favourable balance equal to 2.5 billion a year. Unless an export surplus

greater than that amount is developed or in early prospect, the security for additional loans cannot be said to exist. . . . Germany has no favourable balances at present, and no evidence has been adduced by the Expert Committees or by anyone else to indicate that an export surplus equal to current reparation instalments, let alone additional interest obligations, is in prospect. The notion that Germany offers a rich investment market for foreign capital, and that she can now meet her reparation obligations by credit transactions, is simply an illusion."

The illusion has become reality, and Germany has met her reparation obligations by credit transactions – in what sense we shall consider presently. If you demand reparation which the world thinks impossible, you get nothing; if you demand something which the credit givers think possible, you are surprised at the amount which Germany's credit can bear. There is another side to the matter; Germany's eagerness to borrow was matched by the world's anxiety to lend. The chief purveyor of foreign capital, the United States, was not only anxious to lend, but unwilling to be paid. As a creditor nation she should have had an adverse trade balance representing the payment of interest abroad; by maintaining and stiffening an effective barrier of protection she has shut out foreign goods, and preferred to take her payment in further promises to pay.

When it is averred that Germany has for five years been paying reparation out of borrowed money, it is not intended to signify that the German Government has borrowed the money for the purpose of handing it over to the reparation creditors. It did thus borrow the 800 million marks of the External Loan, but the balance of the

6 milliards paid has been extracted by the Government from the pocket of the taxpayer or consumer. All observers are at any rate agreed that if Germany had not borrowed large amounts abroad, or if foreign capital had not come into Germany in some form or other, reparation payments in foreign currencies would have come to an abrupt termination. But we can go further: the amount which the German Government withdrew from its own people was potential capital, and there was already a shortage of capital which had to be made good by drawing upon foreign supplies; the amount required from abroad was *pro tanto* increased, and in the ultimate resort, while it is true that the German Government did not borrow to pay reparation, the German community did; there is a distinction, but it makes no material difference. It is true that what the German Government took was only potential capital, for some part of it would have been devoted to consumptive expenditure, but, considering the rates at which capital was raised, it is safe to say that by and large the amounts which Germany borrowed abroad between 1924 and 1928 have been proportionately increased by her reparation obligations. And even if only a part of the reparation payments was converted into a demand for foreign loans, it must be remembered that any appreciable increase in the amount demanded abroad is reflected in higher prices, that is, higher interest rates on the loans actually contracted. In effect, the German taxpayer has been discharging payments to the Allies, which are composed of principal and interest, by borrowing the required amount abroad, and a private debt has been substituted for a public one.

This process of borrowing has been extensively criticised

both within and without Germany. The popular criticism which was at one time voiced, even in some reputable foreign Press organs, to the effect that Germany, by borrowing abroad, was organising the sabotage of the Dawes Plan and of reparation payments, may be dismissed as fantastic. At the time the criticism was being made Germany could not have paid a penny unless foreign capital had been imported to feed her people, restock her warehouses, and set the machinery of industry in motion. There was no systematic campaign for borrowing abroad, but individuals and companies requiring capital sought it in the cheapest market, and when their credit was sound and they could offer the kind of security that was in favour, they obtained it more cheaply abroad than at home, where the quantities available were small. The further argument advanced in the same quarters with a view to stemming the flow of capital into Germany – namely, that reparation payments had a priority over new burdens – was disreputable, and exactly contrary to the fact. To have sought to establish such a priority *ex post facto* would have been in the highest degree immoral, for foreign lenders had been tacitly encouraged to aid in the restoration of Germany and by so doing to facilitate the payment of reparation, and they had done so under the protection of a system which gave them a *de facto* priority over reparation creditors, so long as the Dawes Plan was in operation. For this plan provided that marks paid by way of reparation should not be converted into foreign currencies except at par, while the debts contracted privately in gold were payable at their gold value, whatever might befall the mark.

In Germany itself the commonest criticism was that the

transfer of funds to the reparation creditors which the process of borrowing enabled to be carried out was unreal – *unecht*. Now there is no valid objection to paying a reparation debt by contracting a private one in its place; the capital which Germany borrowed abroad, and imported in the form of goods or gold, represented, so far as it was not badly invested, an increase in her wealth, part of which was mortgaged for interest payments on the new debt, an equivalent amount of old debt, assuming for the minute that the reparation annuities could be regarded as capital payments, being liquidated. In point of fact, however, Germany's annual payments must from any angle be regarded as made up of principal and interest; if her debt had been fixed at *x* milliards, and if this amount had been borrowed abroad and paid to the reparation creditors, nothing would have been changed financially for good or ill. But the *x* milliards would give rise to an annual obligation for interest and sinking fund, corresponding to the reparation annuities, and if it was necessary to borrow more of the annual amount required than represents sinking fund, then in effect an obligation at compound interest is being contracted. The question then arises whether there is good reason to suppose that the process, which can obviously not be continued indefinitely, will come to a natural end by the creation of a surplus of foreign earnings; we shall have to recur to this question when we explore the reality of the transfer problem.

A criticism frequently made in Germany itself has been that loans were contracted abroad for purposes which were "unproductive," and which did nothing to produce the foreign currencies necessary for the service of the loans. As Professor Bonn has remarked, it is not possible to make

much headway in this connection with the conception of "productivity"; its interpretation tends to be a question of taste "in which unproved moral principles receive a special colour in accordance with the professional interests involved."[1] If certain expenditure is justified, or if it will be incurred whether justified or not, what matters is not whether it is productive, but whether it will yield a profit. There is one pool of capital, and there is nothing gained by stipulating that borrowers for productive purposes shall dip out of one corner of the pool and borrowers for other purposes from the opposite; the withdrawal of a given quantity will affect the level of the water to exactly the same extent, from whatever quarter it is drawn. In other words, there could be no point in preventing a borrower from finding funds in the United States and forcing him into the domestic capital market, with the result that the resources of that market are so much the sooner exhausted, and other borrowers, perhaps offering a less attractive security and therefore receiving more onerous terms, are diverted to foreign markets. If a remedy is required, it can only be found in suppressing the expenditure and with it the necessity for the loan; if the expenditure is allowed, it can make no final difference to the amount of foreign indebtedness, whether the necessary loan is contracted at home or abroad. Short of controlling expenditure the matter must be left to the free play of economic forces.

The loans contracted abroad by German municipalities were criticised with particular severity, on the ground that they were often unproductive in themselves, and that their employment did nothing to earn foreign currencies

[1] *Befreiungspolitik oder Beleihungspolitik.*

for the payment of interest and sinking fund, and steps were taken to restrict their demands abroad. It was not perhaps realised outside Germany that the attacks made on borrowing abroad by the local authorities were primarily political in origin. If the municipalities were to incur the expenditure, and could only do so by borrowing, the question whether the expenditure was productive was otiose; the provision of working-class houses, for instance, may be called productive or unproductive, according to taste; they may be a prior condition of effective production by industry, or they may be a social necessity, but if they are to be built out of borrowed money you will not decrease German indebtedness abroad by depriving them of access to foreign capital. You may in fact increase it if, as was probably the case, municipalities can borrow on better terms than other borrowers. Nor, of course, is it the function of the borrower to earn foreign currencies; it is his business to earn profits or to increase general efficiency, and if he succeeds in that, the provision of foreign funds will be cared for by the production of the community as a whole.

The attack on the municipalities was really fostered by those interests which objected on politico-social grounds to the participation of local authorities in enterprises of public utility, which is probably more extensive in Germany than in any other country in Europe except Russia. An attack on their foreign borrowing was in effect a subsidiary action on their flank, but, to do the attackers justice, they were perfectly aware that questions of productiveness or foreign earning power were irrelevant; they hoped, by preventing them from borrowing abroad, to prevent them from borrowing at all, and in this object

they were partially successful. There was, however, one important consideration in the background which did go some way to justifying the selection of the municipal bodies for attack. The presumption is that a private borrower, contracting a loan on somewhat onerous terms, has satisfied himself that he can make profitable use of it; if his calculations are sufficiently mistaken, he fails to pay his debt, the investment is useless, and the community as a whole does not have to share his burden. In the case of municipal expenditure, the test of profitability is not always applicable, and when it is it is probably not so rigorously applied; if, in fact, wasteful expenditure is incurred, the local authority has relatively unlimited resources to draw upon and can hardly be allowed to fail in its obligations, which thus become dead-weight debt borne by the community. From this point of view it was preferable that the necessary capital should be imported by private enterprise, which could either pay its debts or annul them by bankruptcy; it is not unduly cynical to suspect that this consideration, though unavowed, accounted for the opposition to municipal loans in certain quarters.

Sporadic efforts were made to check the import of capital into Germany, and they provided an interesting object lesson in the futility of any such attempt. No tariff barrier is effective against this import; capital is the essential raw material of all industry, and if the domestic supply is insufficient it will be imported. State action can make it dearer, and can direct it, almost always detrimentally, from its natural channels, but it cannot exclude it. The authorities restricted the access of the municipalities to foreign capital, and the result was that the municipalities

either were driven on to the internal loan market to drive up the rate of interest and send other borrowers abroad, or had recourse to short-term loans, often derived from parties who were themselves borrowers of money from abroad on short term. Invariably during the course of the five years 1924 to 1928 when long-term loans were impossible, owing to conditions either in Germany or the lending countries, short-term debt accumulated; when the stoppage was of relatively short duration, no great harm was done, and the short loans were funded when conditions improved, but by the end of 1928 about half the outstanding indebtedness of Germany on private account was on short term, and the year 1929, during which the Stock Exchange boom in New York made the raising of long-term loans in that market almost impossible, must have made the position worse. Again, if the inflow of foreign funds is artificially impeded, the result is to raise the cost of capital at home, to restrict activity, and to drive down the price of securities. The natural consequence is that the foreign seeker of an outlet for superfluous capital buys German securities instead of lending directly, with precisely the same effect on the total indebtedness of the community, and probably takes an early opportunity of realising a profit.

There are only two ways of restricting foreign borrowing. The first is to diminish the need of borrowing by reducing expenditure, and in almost all cases it is safer to leave expenditure to be regulated by the play of the interest rate. The second is to reduce the rate of interest at home to a point where it is cheaper to borrow there than abroad. The rate of interest cannot, however, be artificially reduced – that is, to a figure not justified by the

accumulation of capital – with impunity or for long. Over the four years from 1925 to 1928 the discount rate of the Reichsbank, except for one short period, was high, both absolutely and relatively to the rates ruling in the principal capital exporting centres, New York and London. In 1925 it was 9 per cent.; in 1926, 8 per cent. and 7 per cent.; in 1927, 5 per cent., 6 per cent., and 7 per cent.; and in 1928 it remained at the last figure. Only during about six months in 1927, when the rate was 5 per cent., was it as cheap to borrow in Germany as abroad. The reduction to 5 per cent., made in January 1927, was in the first instance explicitly experimental, and it had been shortly preceded by a decision of the Finance Ministry to cease exempting income from loans payable abroad from the tax on income derived from capital. At about the same time, therefore, domestic capital was made cheaper and foreign capital dearer, and it was not concealed that the desire to check the inflow of funds weighed with the Reichsbank. In this purpose they were immediately successful, so far at any rate as long-term loans were concerned, for the stream dwindled to a trickle. It appeared for a time as if the experiment was justified and larger amounts of capital were raised internally. A 5 per cent. Government Loan of 500 million marks was raised in February at 92, and the fate of the issue soon showed that the resources of the market had been overestimated. The Reichsbank had to face growing calls upon it, and it lost in five months nearly one milliard marks from its exchange reserves. At the same time the position was complicated by a wave of Stock Exchange speculation, based on borrowed money largely obtained from abroad. By June the 5 per cent. rate had become untenable, and it

was raised to 6 per cent.; it was again raised in October to 7 per cent., and thereafter remained as high, except for the space of about three months, until after the end of 1929.

Before passing to a consideration of the main problem of transfer, we may refer briefly to one other feature of German borrowing which has given rise to anxious discussion. It has been alleged in certain quarters that Germany is in danger of *Ueberfremdung* – of the alienation of its assets to the foreigner – and it is argued in particular that the sale of German shares abroad, as opposed to the sale of bonds, is on this ground to be deprecated. We may remark in passing that those who argue thus, if they admit that Germany must borrow abroad, should not be found, as they commonly are, in the camp of the opponents of municipal loans.

The notion that Germany can be bought up by the foreigner is, of course, ridiculous; the danger apprehended is that particularly important branches of industrial enterprise may pass under the control of the foreigner. The latter can of course secure an interest in German undertakings without any direct offer of participation by buying shares in the open market, and he can then only be held in check by questionable manipulations of voting rights; any artificial control of the import of capital, which must make capital dearer and shares cheaper, will only increase the danger. But it may be doubted whether the interests which foreigners have acquired in German industry have been more than increased by German poverty; the acquisition is probably in the main a stage in the inevitable process, accelerated by tariff barriers, of internationalising important industries. And if in this process

German industry is the weaker party, owing to its need of capital, it probably obtains this capital on better terms by offering a share in its business than by issuing something in the nature of a debenture, and it is incidentally advantageous to interest a powerful lender directly in the prosperity of that business; from the point of view of the community, for reasons stated above, it is better that Germany should remit a portion of profits if they are earned than pay interest on a bond, which represents an overhead charge payable whether the enterprise is making profits or running at a loss.

CHAPTER VIII

THE TRANSFER PROBLEM

In the last chapter we have discussed what might be called the politics of German borrowing, and we must now turn to the more purely economic aspect of the matter, the much debated transfer problem. And perhaps we cannot do better than preface this further discussion with a quotation from Bertrand Russell: "The scepticism that I advocate amounts only to this: (1) that when the experts are agreed, the opposite opinion cannot be held to be certain; (2) that when they are not agreed, no opinion can be regarded as certain by a non-expert; and (3) that when they all hold that no sufficient grounds for a positive opinion exist, the ordinary man would do well to suspend his judgment." The principle to which we appeal at this moment is the second one enunciated above, for we shall see that the Experts are divided as to whether a transfer problem exists at all, and those who hold that there is a transfer problem would probably disagree as to its dimensions.

In one sense, of course, there was throughout the operation of the Dawes Plan no transfer problem to face. The whole of the payments made by Germany in marks were converted into the currency of her creditors without any serious threat to the stability of the mark, and the Transfer Committee had no grave difficulties to face. If we can cast our minds back to the time when the

plan was inaugurated we must admit that this result is surprising: in the mind of its authors the protection accorded to the German mark was a real one which there was reason to fear might have to be actively invoked in the first few years. It was only after the plan had been running two or three years that it was at all generally contended that the plan was more water-tight than its authors had supposed, and that what had happened in the first year, the second year, and the third year could go on happening until the end of time without a breakdown.

The reasons which account for the smoothness with which Germany's obligations were transferred have been briefly indicated in the preceding chapter. Capital was withdrawn from German disposition and, as witnessed by the high rate of interest ruling, it could not be spared. Germany's credit was good, and in one form or another capital was imported from abroad to take its place; as capital flowed out through one pipe it flowed in through another and kept the level constant. This process is quite automatic so long as Germany's credit is good enough to support it and there is surplus capital abroad seeking investment. Nor can Germany interfere with its working, for even if there were an effective prohibition of all borrowing abroad, the only result would be, if the need of capital still persisted, that Germany would be an attractive market for the purchase of securities, and the inflowing stream would merely change its shape. We have no reason, therefore, to anticipate a cessation in the working of the process at any given moment; we must examine the question whether the machine is not only automatic in the ordinary sense, but embodies the secret of perpetual motion and can never break down.

We may reject out of hand the extreme view, even if it has the authority of Professor Cassel behind it, that the time is coming when Germany will have no security to offer a foreign lender.[1] The amount which Germany borrows abroad increases – not pound for pound, for some of her new investments are unprofitable – her productive capacity and her pledgeable assets; and in a country of Germany's wealth there is much remaining for the foreigner to buy before her power to attract foreign capital is exhausted. If a breakdown ever comes from this direction it will be not because Germany has no assets to pledge or sell, but because the foreigner will become alarmed at the thought that foreign debt is being accumulated at compound interest, and so far from being willing to increase his interests in Germany will try to realise those he holds ; the world will be saturated with German paper. To express it rather differently, the transfer problem arises whenever the foreigner begins to believe that it exists, and at this moment there is a breakdown unless we are justified in holding on a further analysis that other automatic adjustments will then come into play and force Germany to find means of paying her foreign debts without contracting new ones.

Equally we must reject the other extreme theory that there is nothing abnormal, nothing which should cause surprise nor raise a question, in the fact that Germany, a creditor nation in 1914, has in the last five years

[1] See his article in the *Financial News* of 25th October, 1927: "One day, however, the arrangement will break down! The capacity of Germany to take up loans abroad is limited by the possibility of finding satisfactory security to offer for such loans. And if they continue on the present scale, then it will not be long before all securities which can come in question, so far as the international money market is concerned, will have been mortgaged."

contracted a private debt abroad amounting possibly to 16 milliard marks, and faces in addition a public foreign debt under the Young Plan of some 38 milliards. There can, to put it at its lowest, be no guarantee that economic forces as we have seen them functioning in the past will eventually produce the necessary adjustments, not only in Germany's but in other countries' economies, to enable the service of this debt to be met. The past offers no parallel, for never before has any country had a vast foreign debt imposed upon it, with no foreign assets to set off against it. A political debt of this character differs in one essential particular from the normal commercially contracted debt; the latter increases the wealth of the borrower unless it is in its entirety ill invested; the results ant increase in productivity provides the means whereby interest on the debt can be paid and the debt finally liquidated, and in general if this is not the case the debt looks after itself in the bankruptcy of the borrower; the former is dead-weight debt, no part of which can ever be written down except with the consent of creditors, who will infallibly be guided to some extent by political considerations.

In another respect the situation is without precedent. In pre-war days capital accumulated in industrial countries and was sent out in a fertilising stream to develop colonial lands which were producing the food and raw materials required by industrial countries and which were themselves in need of the products of industry; borrowers and lenders were complementary. Germany is not an undeveloped country, but a highly industrialised one, and has had to seek foreign capital from countries who, in part at any rate, are unwilling themselves to

receive German products and are in all cases keen competitors of Germany in other markets. *Prima facie* the situation is anomalous; it may work itself out, but there is nothing gained by denying that it is a new one, or pretending that Germany in 1929 is in the same position as the United States of America in 1913. If we want to see a parallel established we must hope that the United States – and several other Powers – may be involved in such difficulties that they will be forced to pay Germany for vast supplies obtainable nowhere else by selling all their holdings of German securities, for the speed of the United States' transformation from a debtor into a creditor nation was due to the fact that Europe had to sell its American assets to pay for the food and raw material imported from abroad after the outbreak of war, with the consequent diminution of European exports. And involved as the situation is, we are not reduced to hoping that a second upheaval will supervene to correct the unevenness created by the first.

It is sometimes urged that, provided that the annual burden imposed on Germany is one which she can meet internally, the external payment or the conversion of the marks raised in Germany must be automatically insured. In its crudest form this argument implies that there is no difference between an internal and an external debt, which is absurd. The service of an internal debt involves nothing but the extraction of money from one taxpayer's pocket and its transfer to the pocket of another. The size of the debt and the necessity of meeting it may have undesirable results on the distribution of the country's wealth and consequential reactions on its productivity, but in itself taxation for internal debt purposes cannot

directly affect the amount of wealth available to the community. Taxation for the service of an external debt, on the other hand, represents the direct withdrawal of wealth from the community and its transfer to the disposition of the foreigner, who will either take goods from the community for which he gives nothing in exchange, or by making new loans forgo his immediate claim in exchange for a future one. In this respect, if we were willing for the sake of argument to assume that the external character of the payment was immaterial, we should have to observe that, in any case, taxation for the benefit of the foreigner was in its effect indistinguishable from taxation raised for internal expenditure of a purely unproductive character; the mere fact that the revenue was forthcoming over a series of years would be no proof that the country could afford it. If, in point of fact, the burden was too heavy, the strain would sooner or later disclose itself in an unbalanced budget; if the yield of particular taxes happened to be earmarked to the unproductive expenditure, the deficit in the budget would appear at another point, but if the beneficiaries of the expenditure were tempted to argue therefrom that it was other taxation and other expenditure which could not be borne, no one would be deceived.

But there is another sense, in which some economists, not exclusively non-German,[1] contend that the whole problem is solved when once the amount required for a foreign payment has been raised internally. Stated in simple terms, their argument is as follows. When the necessary amount has been raised internally, spending power and the demand for goods tend to be reduced in Germany,

[1] See, for instance, Alfred Lansburgh in *Die Bank* of December 1927, and L. Albert Hahn, *Aufgaben & Grenzen der Währungspolitik*, Gustav Fischer, June 1928. For a popular statement see Long, *Mythology of Reparation*.

and spending power and demand tend to be increased in the countries which receive the payments; German prices tend to fall in relation to world prices, exports to increase, and imports to decrease until a favourable balance of payments is set up sufficient to carry off the foreign payment involved. So long as Germany borrows these tendencies are defeated, but if she ceases to borrow or import capital in any form, natural economic forces will ensure their effectiveness. Until German prices fall gold will be exported and the discount rate will be raised; internal prices will then begin to fall in relation to world prices, imports are discouraged and exports stimulated, a reduced standard of living on lower wages is reached, until finally a new equilibrium is established. On this showing we can all sleep peacefully in the midst of a vain discussion as to whether Germany can pay, for she must pay. So long as she can or chooses to borrow, she will pay out of borrowed money; when she ceases or is unable to borrow, a favourable trade balance will be established.

The theory is in part a protest and reaction against the view that a country's international balance of payments at a given moment is a correct reflection of her capacity to pay abroad, that it is rigid and insusceptible of considerable modification. It would be absurd to deny that all the elements entering into a country's international dealings are in some degree elastic, but it does not follow that the degree of elasticity is infinite. To argue that it is proves, indeed, too much, for it suggests that there are no limits to a country's power to pay foreign dead-weight debt except those set by its taxable capacity, and this suggestion really rests on the untenable assumption that external and internal payments are the same. Let us briefly examine, in

general terms, how far limits appear to be set to the steps in the process adumbrated above, which is to reduce a large adverse trade balance to a markedly favourable one.

There is undoubtedly some elasticity in German imports, and allowance must certainly be made for the progress of invention and its power to enable Germany to dispense with much that is now necessary. Naturally, too, some present imports could be spared, but the proportion of German imports ascribable to luxuries or other articles which have no influence on the production of export goods is small. Germany's dependence on the foreigner for food is great, and an increased degree of dependence is as conceivable as a decreased one. The food which Germany produces within her own borders is protected by import duties, the tendency of which is constantly to rise, while, in spite of the protection accorded, agriculture is and has been for years in a well-nigh desperate situation. Any diminution of food imports attained by an increase of protection will mean an increase of wages and prices and must therefore react on exporting capacity. Further, Germany even in pre-war days had to import large quantities of raw materials for industry, and since the war, which entailed the loss of nearly half her iron ore deposits, as well as a proportion of other raw materials, the dependence of exports on precedent imports has become much greater. In the six chief manufacturing industries imported raw material has been estimated to amount to 55 per cent. of the value of all the raw material which they consumed, and the value of their aggregate exports stood in the relation of 3 to 2 to the value of their aggregate imports.[1] We may justly expect changes in technique

[1] Professor Angell, op. cit., p. 181.

which may effect some improvement, but if we are to frame our judgment on the basis of reasonable probabilities rather than guesses we must conclude that in any future which concerns us if Germany is to export more she must first of all import more. To correct an adverse trade balance of two milliards and attain equilibrium – leaving out of account the necessity of establishing a favourable balance with a view to liquidating invisible imports – Germany must under present conditions expand her exports by at least three milliards, for her imports will increase *pari passu* by one.

The exports on which Germany must rely are almost exclusively manufactured articles, for it is scarcely conceivable that she could export a much greater *value* of coal, the only important raw material of which she has a supply more than sufficient for her own needs. This factor is in a sense essentially elastic; Germany is so equipped that she can rapidly expand her output if the demand exists; if normal conditions of exchange ruled, the world could profitably employ vast quantities of the capital equipment which Germany is adapted to produce. But on the theory we are discussing, German exports must automatically expand even if demand is constant, and this can only take place at the expense of Germany's competitors, that is by underselling them; in other words, German prices must come down, for the effect of German payments in putting up prices elsewhere, considering the area over which the effect must be spread, may be neglected.

On this it may first be remarked that the demand for Germany's staple exports is, in the technical sense, inelastic; it would require a large drop in prices to stimulate a relatively small increase in demand, and if prices dropped

much a large expansion of demand would be necessary to enable Germany to earn much more in gold from her larger output. Secondly, the world in general, and in particular the United States of America, which is the ultimate recipient of nearly all reparation payments, puts every obstacle it can in the way of German exports by placing high customs duties upon them. It is open to question how far any tariff will be effective in the long run, and the immediate effect is increased competition in other markets, where Germany with lower prices will have an advantage. But almost infinite friction is involved in the short run, and trade competition involves a series of short runs in which Germany will have to fight for the export markets which she is best suited to supply, and will probably have to lower prices not once but continuously to underbid her rivals.

The more important question, however, is how Germany is initially to attain lower prices than her competitors. She has, at least for production on the scale which we are contemplating, no natural advantages which enable her to produce her export goods more cheaply. Her export surplus must in the last resort be established by low real wages and the imposition on her working classes of a standard of life lower than that prevailing in the other principal industrial countries. Given a larger amount of elasticity in the other factors, a small change in the wage level might be sufficient, but with the other obstacles to a diminution of imports and an expansion of exports, the wage factor must be proportionally more elastic to produce a marked change. Is there not reason to suspect that the abstract theory of the automatic adjustment of a country's economy to the needs of its foreign trade situation

threatens to break down at this point, when we introduce into the problem a complication presented by modern social conditions? Fifty years ago wages were comparatively elastic; if the sum total of conditions required cheaper prices workers had to accept lower wages or go out of employment; economic pressure ensured that in a comparatively short period there would be plenty of labour available at the lower price, for the workers had little on which to fall back. But under modern industrial and social conditions nothing is more difficult than to lower the general wage level and the resultant standard of living. The wage-earner is in a strong position to frustrate the play of other economic forces. Confronted with the alternative of full employment on lower wages or partial unemployment with the maintenance of the old standard for those that remain in employment, post-war experience in England as well as Germany suggests that he would adopt the latter. It may be remarked parenthetically that in doing so he may rely to some extent, and to a growing extent, on support from the working classes in the countries which are the primary recipients of reparation payments, who will regard pressure on the German wage standard as a threat to their own.

If the worker does choose the latter alternative the natural tendency towards cheaper prices is checked. Imports will fall to some extent, because unemployment allowances do not permit of the same amount of consumption as full-time wages, and stocks of raw materials will be allowed to run down; there will be no stimulation of exports, in so far as this stimulation is, *ex hypothesi*, dependent on the attainment of lower wages and prices. Trade will be bad, profits will decrease, and revenue will

suffer at the moment when a sharp increase in unemployment will throw an additional burden on the exchequer.

Now the advocates of the "no transfer problem" theory must be formally correct when they contend that if you raise internally the amount required for the foreign payment and if you maintain your currency on a gold standard no difficulty can possibly arise. It has never been shown that both conditions can be fulfilled whatever the amount of the foreign payment involved. Raising the money internally means raising it without disturbing the balance of the budget as a whole; the amounts required for the foreign payment and for internal purposes must all be raised out of revenue without recourse to loans. If the money is thus raised in the first year, the process is not complete, unless we are prepared to grant that taxes devoted to external payments are the same as taxes raised for internal purposes and redistributed in the country's economy; there is a time-lag between the raising of the revenue and its transfer abroad.

With the raising of the revenue, capital has been withdrawn from the community; if it can be spared, if in other words the community can afford to give away the equivalent value in money or services and maintain its own economic fabric, no question can arise; if, on the other hand, it cannot be spared it must be replaced, or the structure will give way at some point or other. On the theory which we are discussing it is not to be replaced directly from abroad, and if consumption has been throttled down to the lowest point which a modern community will bear, the capital must in the last resort be withdrawn from productive enterprise. For a time the resultant strain can be borne, and it might theoretically produce the lowered

standard of living necessary to lower prices and stimulate exports; if it does not, sooner or later the budget will disclose a deficit, and if no relief comes in the shape of a diminution of foreign payments at the next stage the exchange will be impossible to maintain and the gold standard will go by the board.

Be it noted in passing that the writers of the Dawes Report, who did believe in the existence of a transfer problem, made provisions for dealing precisely with the kind of crisis which the above analysis, if it is correct, discloses as possible. If a crisis had arisen, transfers under the Dawes Plan would have ceased; in some form or other the capital raised for transfer would have found its way back to German production, and the reparation creditors would in effect have lent to Germany the sums which she actually borrowed abroad. If this had not been sufficient to redress the position, if, that is, the burden imposed on Germany was definitely and not merely temporarily too large, then at the next stage, when a certain sum had thus been lent, the internal payments as well as the transfers would have come to an end for the time being and Germany would automatically have enjoyed a moratorium until economic forces again made foreign payments feasible.

If the objections which we have developed to the theory of automatic transfer are well founded there is one aspect of the matter on which emphasis should be laid. We cannot in the case of German reparation payments distinguished sharply between the internal levy and the external payments to which it is to be devoted; a situation cannot arise in which the internal payments are being made with ease but transfer cannot be effected. If a transfer difficulty ever arises it must arise because too

much capital is being withdrawn from the German taxpayer for the unproductive purposes of paying deadweight foreign debt; when and if transfers which the German economy could not properly afford have effectively been made the internal difficulties will appear simultaneously with, or even before, the transfer difficulty. A transfer crisis will, in fact, be the sign that the internal levy is too high *if it is to be directed to the purpose for which it is primarily intended.* The Dawes Report did not err by distinguishing sharply between an internal and an external debt; it perhaps exaggerated the difference between a payment in marks made to an external authority for conversion into foreign currencies, and a direct payment in foreign currencies. So long as the foreign currencies are available conversion is automatic, and when they are not a Transfer Committee can merely declare a moratorium, in doing which it does little more than recognise an existing situation.

Unfortunately if it is correct to assume that there will be no transfer difficulty without an internal difficulty, the issue will be confused. The crux of the problem appears to be whether Germany can accumulate sufficient capital to spare what the reparation creditors demand, and the only thing which any German Government can do, apart from attempts to bludgeon the workers into accepting a lower standard of life, which would probably defeat its own object, is to cut down its own expenditure to the minimum. If it does not do this it is indulging in the one policy by which it can actively contribute to defeat transfers; if it does, and if in spite of its efforts a transfer difficulty arises it will be hard enough to convince public opinion in the countries which receive reparation that other

expenditure cannot be restricted and the unproductive expenditure on reparation payments allowed to continue.

The economic experts, to sum up the whole matter, have not been agreed as to whether a transfer difficulty can arise, and non-experts had better subscribe to Mr. Bertrand Russell's doctrine and regard neither opinion as certain. Further, if we take the experts who hold that a transfer problem exists and that a transfer difficulty may arise, we would probably find that they are pretty well agreed "that no sufficient grounds for a positive opinion exist" as to whether a transfer difficulty would, in fact, arise under the Dawes Plan, and "the ordinary man would do well to suspend his judgment." This is what the ordinary man, looking at the matter objectively, tended to do after four years' experience of the plan. He thought that its operation had cast disappointingly little light on the question what Germany's *probable* capacity to pay might be; it had proved that Germany's credit was much better than had been expected and that as a result Germany had been able to transfer her reparation payments and replace the capital involved by borrowing abroad. It had not shown that a process which "may disguise the position – or postpone its practical results" could continue indefinitely; the process had continued with relatively little friction throughout the period, and there was nothing to indicate with any clearness when and how it would come to an end, still less concrete evidence as to how thereafter Germany could meet her obligations. As a laboratory experiment the Dawes Plan had not, or not yet, provided the data for a final conclusion when preparations were made for its replacement by a final arrangement.

CHAPTER IX

THE YOUNG PLAN

In the previous chapter an attempt is made to present an outline in non-technical language of the problem raised by the operation of the Dawes Plan, and to justify the conclusion that the problem was unresolved. How came it, in the circumstances which prevailed, that after four years steps were taken to replace the plan by that complete and final settlement for which it had always been intended to pave the way in due course? There was no consonance of opinion as to the lessons which could be drawn from recent experience, and no reasonable prospect of agreement as to Germany's capacity to pay. There had been no compelling crisis or emergency which demanded instant action; in Germany itself, though the French Press later insisted on depicting Germany as *demanderesse* in the matter, there was no urgent demand for a revision of the Dawes Plan, except in certain restricted and uninfluential circles which were actuated solely by political motives. Outside Germany, those who held the theory of automatic transfer had no reason to desire a change which was bound to involve a lower burden on Germany, for a complete settlement involved the abolition of transfer protection, without which the commercialisation of the debt would be impossible; Germany at least was not persuaded that the protection was a delusion, and was not prepared to abandon

it without a *quid pro quo* in the shape of lower annuities. Those who held that a transfer problem existed, and that a transfer crisis might arise, felt that more experience was necessary, and that any settlement reached at that time, unless it involved sacrifice on the part of Germany's creditors, which there was no grounds for supposing that they were prepared to make, would be merely another leap in the dark which could only retard a final settlement.

The Agent General, it is true, as early as December 1927, in his report on the third annuity year, had emphasised "the inherent weaknesses" of any protected system such as the Dawes Plan represents. He then went on, in the conclusion of his report, to offer the following observations:

"The very existence of transfer protection, for example, tends to save the German public authorities from some of the consequences of their own actions, while, on the other hand, the uncertainty as to the total amount of the reparation liabilities inevitably tends everywhere in Germany to diminish the normal incentive to do the things and carry through the reforms that would clearly be in the country's own interests.

"The Experts looked upon the protected system established by the plan as a means to meet an urgent problem and to accomplish practical results. The only alternative to it is the final determination of Germany's reparation liabilities, on an absolute basis that contemplates no measure of transfer protection. The Experts did not indicate when, in their opinion, such a settlement would become possible in fairness to the interests of all concerned. That would indeed have been beyond their power to foresee; but they did describe the plan as providing 'a settlement

extending in its application for a sufficient time to restore confidence,' and they felt that it was 'so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible.' We are still in the testing period, and further experience is needed before it will be possible to form the necessary judgments. But confidence in the general sense is already restored, and the proof of it is present on many sides. It is, in fact, one of the principal factors to be relied upon in bringing about a mutually satisfactory settlement when the time for that arrives. And as time goes on, and practical experience accumulates, it becomes always clearer that neither the reparation problem, nor the other problems depending upon it, will be finally solved until Germany has been given a definite task to perform on her own responsibility, without foreign supervision and without transfer protection. This, I believe, is the principal lesson to be drawn from the past three years, and it should be constantly in the minds of all concerned as the execution of the plan continues to unfold."

In his report dated the 7th June, 1928, on the first part of the fourth annuity year, he recurred to the subject. He observed that the plan had been successful in re-establishing confidence and securing payments, but that

"the success of the plan should not obscure its true nature. The Experts themselves did not recommend the plan as an end in itself, but rather as the means to meet an urgent problem and to accomplish practical results. They aimed primarily to provide for the recovery of Germany's reparation debt to the Allies, and more broadly to provide for the reconstruction of Germany, not merely as the

means of securing the payment of reparation but also as 'part of the larger problem of the reconstruction of Europe.' I believe, as indicated in the Conclusions to my last Report, that from both standpoints the fundamental problem which remains is the final determination of Germany's reparation liabilities, and that it will be in the best interests of the creditor Powers and of Germany alike to reach a final settlement by mutual agreement 'as soon,' to use the concluding words of the Experts, 'as circumstances make this possible.' "

There is nothing in these passages to suggest that conditions were ripe for a settlement, and that if the plan were in its testing period in December 1927 it had passed out of it by June 1928, before the fourth annuity year was completed and therefore before Germany had even begun the payment of the first standard annuity. The Agent General's words might, of course, be read as a warning to the creditor Powers to 'agree with their debtor while he was in the way' and to make a reasonable and generous settlement before anything like a breakdown occurred; he was presumably more explicit in his confidential communications with the creditor Powers. However this may be, in the absence of any consensus of opinion as to the meaning of the process by which the plan had up to date enabled Germany's creditors to receive payment, there was no particular ground for giving an optimistic answer to the question whether the time had already come when circumstances would make a final settlement by mutual agreement possible.

From the account given in a previous chapter, it would almost appear as if the unrolling of the reparation problem at Geneva in September 1928 was merely incidental

to the raising by the German Government of the Rhineland problem, and so far as concerned the British Government, which preferred to deal with the latter problem on its own merits, there was possibly a certain want of circumspection in supporting a policy which, in fact though not in terms, established an interdependence between the two questions. The German Government thought that it had no cause to fear an objective examination of the debt question, and it was in any case bound to accept the invitation to a discussion unless it had been prepared to face the Reichstag with a declaration that there was no prospect of the Rhineland being evacuated before the expiry of the full Treaty period; apart from the effect of such a declaration on the Government's own political situation, it would have indefinitely retarded the progress of Franco-German reconciliation. The German Government, therefore, though patently enough defeated in its efforts to separate reparation and evacuation, had no choice in the matter.

We may surmise that French policy was dictated by a variety of motives. M. Poincaré, having inflicted a great deal of mischief on his own country and on Europe in general, had undone much of it, and appeared genuinely desirous of finishing his career with a general settlement which might be the basis of real reconciliation. He probably had an exaggerated idea, if not of Germany's capacity to pay, at any rate of the price which Germany was ready to pay for a settlement. Both he and M. Briand were probably anxious to evacuate the Rhineland; occupation was a wasting asset, the present value of which they over-estimated, for Germany as a whole was not ready, merely in order to expedite evacuation, to undertake much more of a burden than it would have

shouldered in any case. But in face of French opinion, largely created by the Poincaré of yesterday or the day before, it would have been impossible for any Government to evacuate without any other excuse than the desire to further the cause of international peace. Moreover, as explained in a previous chapter, France's debt settlements with Great Britain and the United States of America were unratified, and the capital payment involved by non-ratification loomed less than a year ahead. The settlements were regarded by the general body of Frenchmen with passionate resentment, and again some excuse was necessary if they were to be forced through a very hostile Chamber. And if a reparation settlement, with extensive possibilities of mobilisation, could be reached, even a failure to ratify the debt agreements and the necessity of paying a large capital sum to the United States Government without anything to show for it looked, superficially at least, less politically hazardous. France, in fact, had everything to gain if her policy were successful, and nothing much to lose if it broke down; success meant the settlement of reparation, security, and inter-Allied debts, which had once more merged into one complex; failure meant at any rate that the question of evacuation was indefinitely shelved, while as regards the other two problems, France was in no worse a position than before.

The conflict of motives which underlay the decision to set up a committee was exemplified in the difficulties encountered in translating the decision into practice. The Geneva meeting took place in September, and the Committee did not hold its first meeting until the beginning of February. In the interval the various creditor Governments took occasion to stake out their claims in a fashion

which seemed to prejudge the issue to be tried; indeed though M. Poincaré was careful to be vague, claiming for France only the amounts required for the payment of inter-Allied debts and an *indemnité nette*, which is an elastic sum, for the devastated regions, an addition of the claims would have suggested that there was no issue to be tried; Germany would have been relieved of any addition to the standard annuity of 2½ milliards by the operation of the index of prosperity,[1] and been expected to be content with this concession. Now the amounts required to pay inter-Allied debts alone were more than any informed student of German public opinion could expect the German people to accept as an unconditional and irrevocable obligation, and there were moments when it appeared as if opportunity would be taken of difficulties of detail to let the whole question go to sleep again indefinitely. The British Government in particular appears to have regretted the Geneva decision on further reflection, and only to have aided in translating it into practice on receipt of an unwritten assurance from the French Government that there would be no tampering with the agreed distribution of German receipts as laid down in 1920 at Spa and in later agreements.

There were discussions, which threatened to be interminable, on the constitution of the Committee, on its terms of reference, and on its place of meeting. The German Government had quite properly turned a deaf official ear to the claims put forward by the various Governments as to the amounts which they expected to receive under a

[1] Under the Dawes Plan, Germany was liable as from 1929–30 to pay sums additional to the standard annuity of 2½ milliards in accordance with the application of a rather complicated index of prosperity.

new settlement ; in its view the amount which Germany was to pay was *sub judice*, and that the matter might have a chance of judicial treatment it insisted quite firmly that the Committee should be composed of financial experts, acting in independence. The German Government was successful in its insistence, but it may be doubted, in the light of after events, whether its victory was profitable to itself; it certainly was not to the unfortunate experts. M. Poincaré never believed in the independence of experts, and had often done his best to secure that French experts at any rate should not be independent. Moreover, if one may judge by the Press, France was of opinion that there was no question requiring expert examination: German capacity to pay had been proved by the Dawes Plan, and the only question remaining to be settled was the duration of those annuities, which meant their extension over a period sufficient to cover the payment of inter-Allied debts; if any concession was required, the abolition of index of prosperity payments was all which could reasonably be demanded.[1]

All this preliminary sparring for position did not augur well for the speedy success of the Committee, but its actual deliberations were conducted with more slowness and in an atmosphere of greater friction than the worst prophet of evil could have anticipated. The public were more or less fully informed at the time of the course of events, but it is perhaps worth while to recapitulate the story here. The first meetings of the Committee were taken up by expositions from Dr. Schacht, the principal German

[1] For a full and documented account of the events leading up to the appointment of the Young Committee and the negotiations involved, the reader may be referred to a chapter in the *Survey of International Affairs, 1929*, now in the course of preparation for publication by the Royal Institute of International Affairs.

member, and from his colleagues, of the economic and financial situation of Germany. It must have been, from certain points of view, a rather pathetic performance, disclosing as it did a rather naïve belief on Dr. Schacht's part that the Committee was composed of independent experts anxious to examine Germany's capacity to pay. Some members appear to have regarded this question as *chose jugée* by the Agent General's last report, which had explained the enormous progress made in Germany between 1924 and 1928; others probably regarded the question as insusceptible of examination at the time; the Committee as a whole would appear to have regarded Dr. Schacht's excursus as a tiresome if necessary academic preliminary to the real business, and an opportunity for him, if the popular metaphor may be permitted, to "let off steam."

When this stage of the proceedings was over, there must have been an awkward pause; no one appears to have been anxious to develop the discussion on Dr. Schacht's lines, and as to figures – well,

> *Great Chatham, with his sabre drawn,*
> *Stood waiting for Sir Richard Strachan;*
> *Sir Richard, longing to be at 'em,*
> *Stood waiting for the Earl of Chatham.*

A coy silence seems to have been broken by the discovery that the amounts of the annuities "were to a considerable extent contingent upon the machinery and form of payment"; in other words, we may hazard a guess that an astute chairman, seeing no prospect at the moment of an agreement on figures, and fearing that premature discussion of and disagreement on them would precipitate

a breakdown, decided that the one chance was to force the Committee to work out a more or less complete scheme, with blank spaces where the figures were later to be inserted; the longer the Committee was kept in being, the more anxious it would be to frame a unanimous report, and the more work it had done on it the less ready it would be to consign it to the waste-paper basket.

For some weeks therefore the Committee concentrated, at least in its official deliberations, on such questions as the division of payments into cash and deliveries, and into conditional and unconditional amounts, as well as the form of organisation which should replace the Transfer Committee, the Agent General, and the various Commissioners and Trustees brought into existence by the Dawes Plan. As a result, considerable progress was made on all subsidiary questions, and the moment came when no further headway was possible until the bull had been taken by the horns; it was not long before the Committee discovered that the bull was in a china shop. The first step was taken by the creditor Powers, who met respectively to table their "minimum requirements" and see what they amounted to in the aggregate; thus after several weeks of sessions the members of the Committee officially discovered that the sum of their claims amounted to about as much as the Dawes standard annuity of $2\frac{1}{2}$ milliards under the Dawes Plan, without any additions under the operation of the index of prosperity.

This would obviously never have done, and with some trouble they succeeded in scaling down their demands – or each other's demands – until they reached annuities of approximately 2.2 milliards.

The German experts promptly rejected these proposals,

and it naturally behoved them to frame and present alternative proposals of their own. Dr. Schacht accordingly submitted a schedule of payments, or, strictly speaking, two schedules, in which the maximum annual amounts were identical at 1,650 million marks per annum. Under Schedule A, 450 million marks were to be paid unconditionally, and the balance was protected, part of it against transfer in certain circumstances and part of it even against payment; under Schedule B the whole annuity could benefit from an interruption in transfers or a moratorium of payments, and there were no unconditional payments. Schedule A was only to be regarded as a definite proposal if various concessions were made to Germany, such as the retrocession of certain colonies and the readjustment of her eastern frontier. These proposals were received outside Germany with a gasp of astonishment, and indignantly rejected by the Committee, which would in all probability have broken up there and then had it not been for the temporary interruption in the proceedings caused by the death of Lord Revelstoke, one of the British experts. We now reach the crisis of the Committee's work, and if the course of their deliberations and the eventual results are to be understood we must examine in rather more detail the situation created by Dr. Schacht's proposals.

There was in the writer's opinion no ground whatever for being surprised at the lowness of Germany's offer. It was at least as high as German public opinion was prepared at the moment to consider; on the other hand, if there was to be any relief from the burdens of the Dawes Plan there was no point, as Dr. Schacht knew, in offering any less, for 1,650 millions was just about the amount required annually to meet the net amounts due to America

under the inter-Allied debt settlements. The idea which was expressed in the foreign Press, and which seems to have been entertained by certain members of the Committee, that Dr. Schacht was playing for his own hand and would not be supported by public opinion, was absolutely without foundation. There was not much more ground for supposing that the German Government, as distinguished from its experts or its public, was prepared to go considerably further; and, even if this latter supposition were correct, the fact was not very significant, and only meant that the politicians were willing to take a risk if they could make an independent expert countersign it and could then seek refuge behind his authority if a day of reckoning came. No one who knew Dr. Schacht expected him to accept the rôle of potential scapegoat.

On the other hand, it is almost impossible to exaggerate the ineptitude, from any point of view, of the conditions on which Dr. Schacht made his more generous proposal dependent. The Committee was there to make recommendations as to what Germany, *in statu quo*, could pay; and to suppose, if Dr. Schacht did in fact suppose, that the Committee would for a moment consider making recommendations for the modification of the political clauses of the Treaty of Versailles betrays an incredible want of imagination. Nor, from the business standpoint, is there much object in stating that if your creditor will provide you with the capital – assuming for the moment that colonies are an asset – you will repay the original debt with the interest on that capital; the creditor expects to be able to earn at least as much profit from it as you. That the creditors received the amount of Germany's offer with genuine surprise shows that they were living in a

world of illusions; that Dr. Schacht should have couched his offer in such a form shows that he was their near neighbour.

His mistaken tactics had two unfortunate results, one direct and immediate, the other more remote. In the first place, the creditor Powers, who would in any case have rejected the German proposals as insufficient, were in a position to do so with a degree of indignation which the magnitude of the offer would not in itself have justified, and they were enabled to make a criticism of Dr. Schacht which commanded an extensive degree of sympathy in Germany. In the second place, having made a patently false move, Dr. Schacht, when the time came for him to retrace his steps, was probably led considerably further than he would otherwise have consented to go. It may be assumed that his offer was always intended as a basis of discussion, and that in order to secure agreement he would have been prepared at a later stage to increase his figures, and in particular to extend the period of payments from thirty-six years, as originally proposed, to fifty-eight years to cover inter-Allied payments. But the distance between his original offers and the settlement which he eventually accepted was so great that his German colleague, Dr. Vögler, could not bridge it, and resigned.

The Committee was confronted with the danger of an imminent breakdown, but owing, as mentioned above, to the lamentable decease of one of its members, had an enforced interval for reflection. The French improved the shining hour by starting to withdraw short-term money from Germany; it was freely stated – and the statement has not been clearly contradicted – that the withdrawal was a concerted political manœuvre. At first glance, at any rate, to bring your debtor into acute financial difficulties

is a curious way of showing him that he is underestimating the value of his own credit and his own capacity to pay. Germany had been losing gold for some time, and would probably have raised her bank rate already had not it been hoped that the successful conclusion of the Committee's labours would render the step unnecessary and had it not been feared that to take the step before it was evidently unavoidable would have been regarded as an insincere advertisement of Germany's difficulties and a manœuvre directed against the Committee. When short loans began to be withdrawn in large amounts there was something like a panic-stricken flight from the mark, which was more gravely threatened than at any time since stabilisation. The flood was eventually stemmed by a rise in the Reichsbank rate and the resumption of the Committee's negotiations.

The Committee now had to decide whether it would report that it had been unable to frame recommendations for a complete and final settlement or to continue its efforts to arrive at some sort of agreement. Opinion was certainly divided at the time as to which was the wiser course to adopt, and in the nature of things it is impossible to be confident now; we shall know how far the Committee's plan is a good one, but we shall never know what would have been the result of failure to agree. One's judgment must depend in the last resort on one's opinion of the plan; a complete and final settlement was past praying for, and the question was whether it was advisable merely to continue the Dawes Plan or make an effort to put something in its place which would at least mark an advance. There were those who thought that after months of preparation and expectancy and weeks of actual deliberation

it was impossible for the Dawes Plan to continue to function; there would probably have been general agreement that almost any solution was better than a dissolution in violent disagreement and bad blood. If at that point it was impossible to stage a quiet and moderate termination based on a purely objective view that the time was not ripe for a settlement, a heavy share of the responsibility for such a situation must be ascribed to Dr. Schacht for the form in which he chose to embody his proposals. The Committee as a whole would appear to have arrived at the conclusion that a breakdown in the circumstances prevailing would have precipitated a crisis the extent of which it was impossible to foresee, but the gravity of which was certain. They must at any rate have been convinced that transfers under the Dawes Plan would have come to an abrupt conclusion for an indefinite time.

When the Committee resumed, it met not to register its disagreement but to consider new proposals submitted by the Chairman, Mr. Owen Young. The main feature of these proposals was, as the text of the report states, an average annuity of 2,050.6 million Reichsmarks. It was reached by a drastic, but not strictly proportional, reduction of the original creditor demands, and in particular it appeared to demand disproportionate sacrifices from the British Empire; the principle of the scheme was to provide Great Britain in future years with the full amounts necessary to cover her liabilities to the United States of America in respect of war debt, even in years in which the existing agreements governing the distribution of reparation receipts would have resulted in a shortage; on the other hand arrears, that is the amount by which payments already made to the United States exceeded Great Britain's

receipts from Germany and ex-allied war debtors were completely sacrificed.[1] The proposals were accepted as a basis of discussion, but some more weeks were spent in juggling between claims and apportioning sacrifices before agreement could be reached. Much of the difficulty arose from Belgium's insistence that the final figure should include means of compensating her for the mark notes which had been forced into circulation in Belgium during the war and subsequently withdrawn at par by the Belgian Government. The loss thus incurred had been ruled out years before by the Reparation Commission as not falling within the claims for reparation admissible under the Treaty, and for that reason the other creditor Governments were not disposed to lower their own claims in order to satisfy the Belgian Government, and the German members were quite unwilling to increase the annuity, quite apart from any question as to the admissibility of the item. When all other obstacles had been removed, it looked for a time as if a deadlock had been reached, but the difficulty was eventually solved by the German Government entering into a *pactum de contrahendo* with the Belgian Government to negotiate a separate settlement of the question. The Belgian insistence, which threatened to be fatal at the last moment, is open to criticism, but it must be said in palliation that before the Committee was constituted the Belgian Government had clearly informed all interested parties that it could regard nothing as a final settlement which did not in effect cover this long outstanding claim; if other Governments did not have enough foresight to resist this introduction of

[1] A large part of the amount sacrificed under the Young Plan as issued was subsequently recovered in the negotiations at the Hague Conference in the late summer of 1929.

extraneous matter, they were under the impression, it is to be presumed, that when the bear's skin came to be cut up there would be no difficulty in covering this small non-reparation claim. By the beginning of June the Committee had reached agreement on a constant annuity of 2,050.6 for thirty-seven years followed by payments for a further twenty-two years to cover net liabilities on account of inter-Allied debts; the latter payments range between 1,600 and 1,700 millions for nineteen years and fall to just under 1,000 millions for the last three years.

When once the Committee turned from questions of organisation to the main task of settling figures, it found itself in a false position. By force of circumstances the independent experts became mere negotiators involved in what the Germans call *Kuhhandel*, and what Anglo-Saxons by a slight zoological adaptation call "horse trading." If the time were ripe for that kind of negotiation the Committee was wrongly constituted of independent experts; the members should have been either officials directly responsible to their Governments, or Ministers with plenary powers prepared to defend their agreement before Parliament – the ultimate responsible authority. It is open to question whether the Experts did not exceed their functions in dealing with questions affecting the distribution of German receipts – the French Press argued first one way and then the other as appeared at the moment more advantageous to French interests; there can, however, be no doubt that when once the Experts were persuaded that a breakdown in the Committee was to be avoided at all costs they had no choice but to take the risk of travelling outside their terms of reference; there was no possible way of securing agreement if existing rights were to be rigidly

maintained. The course adopted was, however, a *pis aller*, and its adoption involved all the difficulties experienced in the months that followed in securing general acceptance of the plan and bringing it into operation.

Without entering into close detail, we may now proceed to examine what the plan contains, and thereafter consider in what respects it differs from the plan which it was designed to replace.

The annuities are not constant in amount. The annuity in the first full year is only 1,707.9 million marks, is even slightly lower in the second year, and rises irregularly until it reaches 2,428.8 millions in 1965–6; after that date it drops to 1,607.7 in 1966–7, and after rising again to about 1,700 millions, continues at that level until 1985–6 when it drops below a milliard, and after 1987–8 it disappears. The irregularity of the annuity is partly accounted for by its adaptation to the principal purpose of covering all Germany's creditors against the sums due by them in respect of inter-Allied debts; the lowness of the annuity in the early years was no doubt intended as a bait to induce the German experts, or the German Finance Minister, to accept a plan which would have been definitely less attractive at the minute if it had provided for equal payments of 2,050 millions.

The annuities are divided into conditional and unconditional parts (the report sometimes speaks of conditional and unconditional annuities, but this would appear to be a slip), the unconditional part amounting to 660 millions, including the amount required for the service of the External Loan of 1924.[1] From the text of the plan itself it is

[1] By an agreement reached at the Hague, the unconditional part becomes 612 millions, exclusive of service of the loan, or roughly 700 millions in all to begin with.

not clear, whether after 1965–6 the annuity is divided into conditional and unconditional parts; it appears clear however, that after that year there can be no part which is unconditional in the sense that it could be mobilised, for at any time thereafter the whole of the annuity in certain circumstances lapses automatically.[1] Up to 1965–6 Germany has two-thirds of the benefit which may accrue to the creditors from any reduction in inter-Allied debts, and after that date the whole of the benefit.

The whole annuity is a direct and unconditional charge on the Reich budget, but the Railway Company is to pay for thirty-seven years from 1929–30 a tax to the Reich of 660 million marks in exchange for the cancellation of the charges placed upon it by the Dawes Plan, and to lodge with the Bank for International Settlements a certificate acknowledging its liability. This certificate and the assignment by the German Government of certain revenues as a "negative pledge" (the significance of which would appear to be merely that the revenues cannot be pledged for other loans or credits without the consent of the party to whom they are negatively pledged) are the only security for the annuity over and above the direct obligation of the German Government.

Deliveries in kind continue on a diminishing scale for ten years and then come to an end. A recommendation that provision should be made to enable the receiving Powers to dispose of some part of the deliveries outside

[1] The following passage appears in the memorandum on the receipts of the United Kingdom under the Hague Agreements (Cmd. 3598. p. 49): "The division of the last 22 annuities into non-postponable and postponable portions will be notified in due course to the Bank for International Settlements in execution either of an agreement between the Creditor Powers and the German Government or of a decision of the Interpretational Tribunal." We may hope that the point will prove to be academic.

their own territories was definitely ruled out by the first Hague Conference. It is a little difficult to see how the recommendation came to be made; it would simply have enabled a creditor country to make a profit as a middleman and have established an artificial entrepôt trade in normal German exports.

The whole of the payments are to be made to, and their distribution managed by, a new institution already mentioned above – the Bank for International Settlements. In the words of the report[1] "the purpose of the bank is to provide additional facilities for the international movement of funds and to afford a ready instrument for promoting international financial relations. In connection with the German reparation annuities, it shall perform as trustee for the creditor countries the entire work of external administration of the plan, shall act as an agency for the receipt and distribution of funds, and shall supervise and assist in the commercialisation and mobilisation of certain portions of the annuities." The directorate of the bank is in principle appointed by the central banks of the seven countries represented on the Young Committee, i.e. Belgium, Britain, France, Germany, Italy, Japan and the United States of America; special provision (which has one eye on the United States of America) is made for representation in case a central bank cannot itself appoint. Each of the above countries nominates two directors, and so long as the reparation annuities continue France and Germany may each appoint a third director. The capital of the bank is provided primarily by the same countries in equal proportions, but a portion of the capital is reserved for not more than eleven other countries with currencies

[1] Annex I., 1, 3.

stabilised on a gold or gold exchange basis; not more than nine additional directors may be appointed from candidates presented by the central banks of countries other than the original seven.

At any time Germany can give notice to suspend for a period of two years the transfer of the whole of that part of an annuity which is not unconditional. At the end of a year during which transfer has been postponed the transfer of the postponable or conditional part of the annuity payable for the next year may be deferred only for one year. Further, in the second year of postponed transfer Germany would have the absolute right to postpone even the payment in marks of 50 per cent. of the conditional part of that year's annuity, and might in certain circumstances obtain permission to postpone payment of 100 per cent.

If Germany has exercised her full right of postponement for two years, then at the beginning of the third year, if she has meanwhile paid what was due and postponed in the first year, the second year's payments could be further postponed for a year, and the third year's payments for the same period. This process can be repeated until the end of the plan, and in effect it means that Germany, when once she has claimed a moratorium, can always be substantially two years in arrears – not quite two, for during the second year, or at latest by the last day of it, she must have paid off the first year's arrears in order to postpone the liabilities of the third ; during the third year she must have paid off the second year's arrears in order to postpone the liabilities of the fourth, and so on. Further having once postponed, Germany could never bring her moratorium to an end except by paying the annuities of two years in one,

So soon as Germany gives notice of any postponement the Bank for International Settlements is to convene a special Advisory Committee, consisting of seven members appointed by the central banks of the above seven Powers and four co-opted members. The Committee shall examine the whole situation and report to the bank and the governments concerned.

Such, in bare outline, are the essential features of the Young Plan. What are the main differences between it and its predecessor?

Obviously the most important change is in the amount and the duration of payments; but before we can compute the extent of this change we must examine – for there is not complete agreement on the subject – what Germany's obligations were under the Dawes Plan. The latter provided for a standard annuity of 2,500 millions with a contingent addition in accordance with growing prosperity as measured by a somewhat complicated index. The annuity was drawn from several sources:

	Million marks
Budget	1,250
Transport Tax	290
Railway Bonds	660
Industrial Debentures	300
	2,500

The Railway Bonds would have been definitely amortised in 1964 and the Industrial Debentures at approximately the same date, for the above payments include 1 per cent. for Sinking Fund. There has been some discussion as to what Germany's liability would have been under the

Dawes Plan after that date. It has been argued that the loss of 960 million marks a year would have been made up by a corresponding addition to the budget contribution; it has been argued, on the other hand, that it was the intention of the Dawes Experts that the budget contribution should cease at the same time or even earlier, when the Dawes Loan is finally paid off. There is nothing in the Dawes Report which supports either view, and no other ground for saddling the Experts with either interpretation; in fact, they never addressed their minds to the subject, for they would have regarded it as academic, in the assurance that long before the question could become practical their plan would have been superseded. Taking the text of the plan, we are only entitled to suppose that as and until it was altered by agreement between the contracting parties the budget contribution, including the Transport Tax, would have been payable as a perpetual annuity subject to a reduction of approximately 90 million marks which is automatically effected when the Dawes Loan, of which the creditors received the capital, is finally liquidated; the perpetual annuity would therefore have been roughly 1,450 million marks, or about 100 million marks per annum less than Germany contracts to pay from 1966 to 1987 after the unconditional part of the annuity disappears.

Disregarding slight differences of dates, our conclusion is that for thirty-six years Germany pays an annuity under the new plan of 2,050 million marks instead of 2,500 millions plus a supplement of an unknown amount; for the subsequent period she pays an average of 1,565 millions for 22 years instead of a perpetual annuity of 1,450 millions. The difference is, therefore, very considerably in

Germany's favour; the distribution of the new annuities, moreover, is such that in the early years Germany pays considerably less than the constant annuity, and this is a further advantage; the first two full years require payments of only 1,700 million marks, and it is not until 1939 that the figure rises to approximately 2,050 million marks. For the first time since hostilities ceased, Germany's obligation is clearly defined in amount and duration, and is neither obviously fantastic nor implicitly provisional; moreover, the only change for which explicit provision is made in certain circumstances is a reduction.

Secondly, there is not only a change in the amount of the payments, but also a partial change in their character. Part of the annuity is an unconditional obligation, payable by the German Government at whatever cost to her exchange, and the expressed intention is to issue bonds to the public on the security of the unconditional payment and thus put the creditor Governments in possession of capital sums instead of income. This is not so much an innovation on the Dawes Plan as an extension of a principle contained in it. The German External Loan of 1924 is an exact parallel to any loan issued under the Young Plan; this loan was subscribed by the public, the capital proceeds went to the creditor Governments, the service of the loan is to be met unconditionally, and the necessary annual sums are paid out of the normal Dawes annuities. Moreover, the Dawes Plan created Railway Bonds to the value of 11 milliards and Industrial Debentures to the value of 5 milliards which were in theory mobilisable in just the same way as the capital value represented by the unconditional part of the Young annuity. In practice it would not have been possible to mobilise these securities

except by selling them at a ruinous price, for the payment of interest and sinking fund on them was liable to be suspended at any minute by the Transfer Committee. In accepting the new plan Germany in effect forgoes transfer protection for an amount which is almost exactly equivalent to interest and sinking fund on the Railway Bonds.

Thirdly, all forms of control, or so-called control, disappear; the Agent General, the Transfer Committee, the Commissioners of the Reichsbank, of the Railway, of Controlled Revenues, and the Trustees for the Railway Bonds and the Industrial Debentures, the foreign members of the Reichsbank and Railway Boards, even the Reparation Commission itself, are all swept away overnight. The disappearance of the Transfer Committee and the Agent General has a special significance; as regards the lesser satellites who were responsible for the daily administration of the Dawes Plan, their abolition is mainly of psychological importance. No one in his senses would dream of instituting at this date a special authority to check the issue of Reichsbank notes, or of putting foreign members on its Board; the presence of foreign members must have made meetings of the Reichsbank Board more interesting and perhaps more informative than meetings of the governing bodies of central banks can normally be expected to be, and the President will miss them, but what was scarcely felt as a humiliation in 1924 has now become an intolerable anachronism.

There is not much more to be said in favour of a Railway Commissioner. He must often have been an effective bogey to secure acceptance of necessary but unpleasant measures, and he and the foreign members of the Board acted as a rallying-point for other members who desired

to run the Railway on business lines. The Commissioner's active powers were, however, only to be invoked in extremities, and in the final resort, as any deficit on the working of the Railway must be made good out of budget resources, it is fairly safe to leave the Railway and the Reich together to be guided by their joint self-interest.

The control of the assigned revenues under the Dawes Plan was from the start mere window-dressing. The only circumstance in which the Commissioner could have exercised any important function would have been such as to betoken a revolt of the German Government against the plan, and in that case the weapons with which he was armed would have broken in his hand.

The disappearance of the Agent General is, of course, a matter of real significance. The Agent General was *ex officio* Chairman of the Transfer Committee, which had a great deal of administrative work to perform but was never called upon to take any important decisions in regard to transfer, and Chairman of the Co-ordinating Board, which was composed of the various Commissioners and Trustees and had no executive functions. His further powers rested on the vague ascription to him in the Dawes Report of "responsibility for the plan as a whole." His periodical publication of reports on the working of the plan, with their full accounts of economic and financial conditions in Germany and their appreciation – in the neutral sense of the word – of German public administration was the most important manifestation of his general power. It is clear from the tenor of his reports that the Agent General was of opinion that a sufficiently gross maladministration of German finances would mean the breakdown of the plan as a whole; it is not clear whether

he would have subscribed to the view that if the plan were, in fact, bound to break down through transfer difficulties the fissure would first appear in the budget. On either view he was acting in the German interest as much as in the creditors' interest in drawing attention to weaknesses, for in the event of a collapse caused by avoidable internal difficulties the German people would have necessarily been held responsible for the shortcomings of their elected rulers; in the event of a collapse accompanied by, but not directly caused by, internal difficulties, the creditors would not have been too nice in distinguishing between cause and effect, and in Germany's interest it was desirable that no accusing finger could legitimately be raised against her conduct of her own finances. At the same time, the position was one of great delicacy, and it is probable that the position of the Agent General was at least as irksome to himself as to the German Government. In the first place, finance and politics in Government cannot be divorced, and criticism divorced from political responsibility has obvious dangers. In the second place, the Agent General's criticisms were liable to have an immediate effect on Germany's credit, especially in America, her chief supplier of capital in the first three years of the Dawes Plan ; for this reason there was always a risk that a German Government might be forced to take action which it held to involve serious political dangers. Indeed the *de facto* position of the Agent General came perilously near to constituting a system, in the words of the Dawes Report, "which would involve directly or indirectly the virtual control of all Germany's revenue and expenditure." Any such system was rejected by the Dawes Committee on the ground that it " would involve the controlling

authority in responsibility for all financial troubles and it might be a pretext for them." That no serious trouble arose is at once a tribute to the skill of the holder of this office as a skater on thin ice and to the general justice of the criticisms which he felt called upon to make from time to time. But that he was himself aware of the difficulties is abundantly evident from the remarks quoted earlier in this chapter as to the weaknesses inherent in any protected system and the restoration of Germany to a position of full responsibility.

The disappearance of the Transfer Committee is rather a different matter and brings us to a fourth important difference between the two plans. Under the Dawes Plan Germany's obligation was a mark one, and the transfer of the marks into the foreign currencies required by the creditor countries was the task of the Transfer Committee. At any minute the Transfer Committee, if it held that transfers would imperil the stability of the German currency, could interrupt, and was in duty bound to interrupt, the purchase of foreign currencies and retain its funds in marks. When it had accumulated a certain sum in marks – 5 milliards, or two standard annuities, but this was a maximum which the Committee itself could lower – even Germany's obligation to pay marks ceased temporarily and did not again become effective until some of the accumulated mark fund had been converted. Under this system the German economy would first have been re-lent the capital which had been withdrawn from it, and at the next stage would have been granted a complete moratorium of quite indefinite duration. Had transfer protection been called into play during the currency of the plan, Germany would in effect

have borrowed from the reparation creditors in marks sums which she actually borrowed abroad in foreign currencies. This was the striking innovation contained in the Dawes Plan; the answer to the question how far the system had any real value, even of a potential character, will depend on the opinion held on the "transfer problem" discussed in a previous chapter.

The Young Plan abolishes the Transfer Committee, but in this respect the difference between it and its predecessor is barely more than formal. Except as regards the unconditional part of the annuity, Germany continues to enjoy a transfer protection, the only changes being that it is not a committee representing the interests of Germany's creditors which decides to suspend transfer, but the German Government itself, that the suspension is no longer indefinite in duration but limited to two years, and that the moratorium in internal payments comes automatically into force at an earlier date. The fact that Germany can herself suspend transfers when she thinks it necessary in her own interest, though it vastly increases, or should increase, her sense of responsibility, can hardly be represented as a disadvantage to her. It may be remarked in passing that if ever circumstances arise which make it desirable that Germany should exercise her right of suspension, it is to be hoped that she will not shrink from the responsibility; the alternative is a depreciation of the mark which might undo much of the good work carried out in the last five years. The fact that the power of suspension is limited to two years is utterly devoid of all practical significance; it is inconceivable that when Germany has suspended transfers for two years, and the payment in marks of at least 50 per cent. of her

conditional obligations for one year, the third year can witness a return to the normal procedure of the plan. A prolonged suspension of transfers under the Dawes Plan would have been a plain indication that the plan was ripe for revision, and a new Experts' Committee would have been set up. *Any* suspension of transfer under the Young Plan, set in force, as it must be, on the solemn responsibility of the German Government, will mean a revision of that plan; and it provides itself for that revision, for so soon as the German Government gives notice that in ninety days it is going to suspend transfer, an Experts' Committee, as explained above, is at once constituted to review the whole situation; this Committee is the legitimate lineal descendant of the Dawes and Young expert committees – a posthumous child entitled to all the titles and honours of its forefathers.

With the maintenance, for the greater part of the payments, of transfer protection, but responsibility for exercising it placed on Germany, the Transfer Committee is abolished; with the disappearance of the Agent General, the Commissioners and the Reparation Commission, all the existing machinery is simultaneously scrapped; in the place of these various bodies and officials comes the Bank for International Settlements – the great innovation of the Young Plan.[1]

The Young Report in its general observation on the Bank, after referring to the duties devolving upon it as an agency for the management of reparation payments, concludes with the following words: "In the natural course of

[1] For a technical examination of the bank the reader may be referred to *Die Reparationsbank: Kritische Betrachtungen*, which is a series of articles written by political economists for the *Frankfurter Zeitung*, and subsequently published by the Frankfurter Societäts-Druckerei.

development it is to be expected that the bank will in turn become an organisation, not simply, or even predominantly, concerned with the handling of reparations, but also with furnishing to the world of international commerce and finance important facilities hitherto lacking. Especially it is to be hoped that it will become an increasingly close and valuable link in the co-operation of central banking institutions generally – a co-operation essential to the continuing stability of the world's credit structure." It is not without significance that in the annex to the Report which contains a suggested outline for the bank's organisation the order is reversed and its general international functions are given pride of place. The importance of the bank in this respect is, so to speak, embryonic; attempts both to ascribe magic qualities to the bank and to belittle it as nothing but window-dressing are misplaced, and a verdict on its utility is obviously premature. It is a new organisation, and organisations, like organisms, have the seeds of their own life within them, and will evolve in ways which are generally unpredictable; if they have enough vitality to survive they are at the end of a generation very different from what was originally intended or could reasonably have been foreseen. This particular organisation, while some of the expressions used about it have a somewhat grandiose sound, starts modestly enough, and its powers have been carefully circumscribed by the Governments concerned. It at least furnishes a means whereby the governors of central banks can (indeed, must) be unostentatiously in contact, ostensibly for other purposes, and can, if they choose, co-ordinate their policies without provoking newspaper controversies or wild rumours. There can be no doubt that in the course of time, with the growing

internationalisation of trade, commerce, industry, finance, and even politics, some central institution for dealing with credit policy will be needed; if it survives, the Bank for International Settlements, slowly evoking and adapting itself as circumstances require, will be there to meet the need, and in the meantime its very existence will tend towards that co-ordination of which it may some day be the executive organ.

So far as regards reparation, the bank will be responsible for all the routine business of receiving and distributing payments, and will conduct the operations involved in the mobilisation of the unconditional part of the annuity. The hope is also expressed that the bank will actively facilitate Germany's task: "The character of the annuities and the magnitude of the payments to be transferred over the exchanges provide at once the opportunity and the need for supplementing with additional facilities the existing machinery for carrying on international settlements, and within limitations of the sound use of credit, to contribute (for contributing?) to the stability of international finance and the growth of world trade. We consider that by judicious non-competitive financial development the bank should prove a useful instrument for opening up new fields of commerce, of supply and of demand, and will thus help to solve Germany's special problem, without encroaching on the activities of existing institutions." These are brave words, but it is difficult to resist the conclusion that there is nothing much more behind them than pious aspiration. The bank can issue no notes and can create no credit; where the credit and the chances of profit already exist, it is difficult to see what the bank can do which will not be done by existing financial

institutions. The bank will have relatively little capital; its reparation deposits will be very short time, for receipts from Germany will be remitted with considerable promptness to her creditors, and there would not appear to be any particular attraction to other depositors. One German critic has remarked that the Young Plan contains two provisions: the bank shall by its transactions facilitate the transfer of reparations and it shall not compete with existing institutions; the two are not compatible and one must be regarded as a mere flourish of the pen. If this presentation is correct there is little doubt that the prohibition will take precedence of the direction, as the subsequent elaboration of the bank's statutes has gone a long way towards confirming. Equally the hope held out that the bank may make substantial profits, Germany's share in which will appreciably lighten the burden of her later payments, must be regarded as illusory. It is not clear how the bank is to make profits of any magnitude unless it does business which other financial institutions can equally well do, or receives funds either from Germany or the creditors on which it can earn interest which the owners of the funds could equally well earn for themselves. The bank's profits would then be a pious fraud either on the annuity or on Germany.

There is, however, one important provision for assistance by the bank to Germany. The bank may facilitate transfer by not transferring for a time; it can issue trust certificates of its own, pay Germany's creditors with the funds thus acquired, and invest the amount due from or actually paid by Germany in that country. That procedure could obviously only be used to deal with an emergency which there was reason to believe was merely

transitory, but it is a powerful weapon for meeting such trouble at a time when Germany might reasonably hesitate to risk precipitating a crisis by invoking her own power of suspending transfers. It is, moreover, an innovation, providing as it does a half-way house between transfer and non-transfer, whereby the German exchange can be nursed without an interruption of payments to the creditors. The Transfer Committee could grant no such facilities; if it ceased to transfer, the reparation creditors ceased to receive payment, and the utmost the Committee could have done in a temporary emergency would have been to reconvert into marks German payments already made and transferred but not finally distributed. The existence of this provision does nothing, of course, to facilitate effective payment, it would be inapplicable except to a passing difficulty, and it is not possible to state with any assurance that general credit conditions would make it practicable when the emergency arose, but it does constitute a not unimportant theoretical improvement on the Dawes Plan.

It remains to mention two minor changes. In the first place, deliveries in kind are continued, but on a descending scale, and they are to come to an end completely after ten years. To some extent, but surely to a small extent, deliveries in kind did constitute exports which Germany would not otherwise have made, especially when they were treated by the receiving country as entitled to a particularly favourable régime; when so treated, however, they were really competing unfairly and were resented either by the domestic producer or by foreign competitors. Fundamentally they are an artificial complication, for in the long run Germany can only pay by having

a favourable balance of goods and services, and the mere ear-marking of particular exports to reparation payments, if they are not treated with special favour, does nothing to increase exports; it merely tends to beg the question of Germany's capacity to pay. In any case, it was inevitable that with the tendency to develop the payment of reparations on normal business lines, there should have been an effort to substitute straightforward cash transactions for the mixed procedure of the Treaty and the Dawes Plan. The continuance of the system for a period of years is merely intended to avoid the dislocation attendant on a sudden change.

In the second place, the Dawes Plan provided[1] for a revision of German payments in either direction in the event of the general purchasing power of gold, as compared with 1928, altering by not less than 10 per cent. There is no similar stipulation in the Young Plan. It clearly could not have been applied to the unconditional part of the annuity, for this may be mobilised, and the bondholders will require fixed sums whatever the purchasing power of gold. As regards the conditional part of the annuity, it is substantially intended to cover payments due by Germany's creditors which are equally fixed once and for all, and independent of fluctuations in the value of gold. It was natural enough, therefore, that this particular feature of the Dawes Plan should not have been reproduced.

[1] Annex II., paragraph 9. It seems pretty clear that 1930 prices will be at a level which would have required a diminution in Germany's payments under the Dawes Plan, had that Plan remained in force, and the course of events since the above chapter was penned has been such as to suggest that what then appeared to be a minor change may prove to be a major one.

CHAPTER X

THE FUTURE OF REPARATION

In the conclusions to the Young report, the Experts observe: "It has been our object to make proposals for financial obligations, which, with the conditions and safeguards that accompany them, shall be within Germany's capacity to pay, and we believe that we have achieved this purpose." The Experts are therefore unanimous, but if we invoke Bertrand Russell's sceptical principles once again, this only means that the opinion opposed to that of the Experts cannot be held to be certain. Moreover, the sentence which we have quoted is little more than an expression of faith, for which from one end of the report to the other no reasons are given; if we were not already numbered among the converted, we are therefore entitled to be sceptical to the modest degree indicated, and to fumble with the future for ourselves.

A preliminary observation thrusts itself upon our attention. The Committee was set up to make "proposals for a complete and final settlement of the reparation problem," and it did not succeed. How is a final settlement to be defined? Speaking on the 15th November, 1928, in the Chamber, M. Poincaré remarked that only when an agreement had been reached which permitted of the mobilisation of Germany's reparation debt could the question of inter-Allied debts be raised. Nearly a year later, on the

10th November, 1929, M. Briand expressed himself as follows:

"A Genève, le chancelier Müller est venu dire:

"'L'article 431 à la main, nous estimons que nous avons déjà fait, par l'exécution du plan Dawes, montrer de la bonne volonté prévue et que nous avons droit à l'évacuation.'

"J'ai répondu: 'C'est inadmissible. Vous n'auriez droit à l'évacuation que si la bonne volonté manifestée par vous était susceptible d'effet, si elle permettait de réaliser les réparations. Il faudrait que vous assuriez la possibilité de mobiliser, par un règlement complet et définitif, la situation envisagée par le traité.'

"Tous mes collègues des autres nations ont été de mon avis et le chancelier Müller a renoncé à continuer de discuter. On est donc convenu de faire rechercher par des experts les possibilités de mobilisation. Telle a été l'origine du plan Young."

M. Briand is reporting a conversation which had taken place more than a year earlier, since when the Experts had reported, and he is concerned not to state too clearly what was implicit in a final settlement, which perhaps accounts for the curious phrase "mobiliser . . . la situation envisagée par le traité." But it is really clear beyond dispute – and no other conception prevailed at the time the decision was taken to set up the new expert committee – that a final settlement is one which provides for the payment by Germany either of a capital sum bearing interest at a fixed rate, or of a series of annuities, which Germany is in all circumstances bound to pay, unless her

debtors choose to make concessions on their own initiative, and which enjoys no transfer protection. Probably far too much importance has been attached to mobilisation, but "mobilisability," if the word may be permitted, is the test of the debt's finality, and no debt can be mobilised which is not wholly unconditional. Under the Young Plan, about one-third of the annual payments is unconditional, and it is only this third which can be mobilised; as regards the balance, it rests with the German Government to decide at any moment, if it thinks fit, that its payment in foreign currencies is to be suspended. It would require extreme simplicity of mind to believe that such a suspension is not an automatic signal for the revision of the plan. It is not, then, in its essence a final plan; it may prove to be a final one if the power of revision is never invoked, but this is a kind of accidental and *ex post facto* finality.

What are the advantages and disadvantages which adoption of the new plan entails for the principal parties interested? The British point of view is relatively simple. It has for many years been a fixed element in British policy that they will not receive more from Germany and the ex-Allies than is required to pay the debt due to the United States. The smaller the total demand made on Germany, provided the British share is sufficient to cover the American payments, the better chance there is that German obligations will be punctually and smoothly fulfilled. If the German payment is so big that the British percentage is more than is required when added to the debt payments received from ex-Allies to pay America, the result is that less is demanded from the ex-Allies, and in the interest of the world's economic stability it is probably better, given

the magnitude of Germany's minimum obligation, that relief should enure to her benefit rather than to that of France. The diminution of the German payments is therefore, if not of positive advantage to the British Empire, certainly a matter of indifference. Great Britain continues to receive from her aggregate debtors sufficient to pay her debts in the future; it is true that the new plan meant a sacrifice of arrears (some of which were subsequently recovered by Mr. Snowden at The Hague) which exist owing to the fact that, since the British debt to America was funded, more has been paid in respect of it than has been received from Germany and the ex-Allies to date; if, however, we are justified in regarding the new plan as marking an important progress on its predecessor, and if it conduces to the re-establishment of more normal political and economic conditions in the world, the sacrifice thus involved is a bagatelle.

For Germany, the adoption of the new plan would appear to be pure gain. Her maximum obligations are now fixed in amount and duration; not only are Germany's maximum obligations now fixed, but a very generous provision has been made for their reduction if her creditors benefit from a reduction of their own liabilities. The fixation of the amount is the more important factor, for it represents a large reduction on the burden of the Dawes Plan, while the duration of the payments carries us into a remote period which may safely be left to look after its own problems. If the settlement recently reached lasts thirty years without modification, one may feel every assurance that later payments will cause no disturbance; indeed, it might be fair, were it not that other circumstances rendered the course unavoidable, to criticise the

plan on the ground that it provides for the termination of payments at a fixed date, rather than for a capital sum with a fixed rate of interest to be amortised as and when the debtor was able and inclined. Under the latter procedure the public debt would gradually have been converted into a private one, which would have merged into the general complex of international indebtedness and only gradually been liquidated as changes in economic relations made the process natural. As it is, the sudden cessation of German payments to the creditor Powers, and of payments by the latter to the United States of America, unless trade has by then expanded so much as to render the amounts insignificant, may produce a considerable amount of dislocation.

Further, Germany is not only relieved of all forms of foreign control and interference, real or only humiliating, but, by her share in the management of the Bank for International Settlements, is actively associated in the future daily administration of reparation business. For the larger part of the payments to be made, transfer protection, exercisable at the sole discretion of Germany, is maintained. It is true that in form the protection is only temporary, but, as has been already contended in these pages, in effect a suspension of transfer means a re-examination of Germany's capacity to pay. Finally, when the new plan was generally adopted and in force, the evacuation of the third and remaining zone of occupation was to follow, and Germany is once more a free country under unified control. The political relief involved, though it is not one for which Germany would have been willing to pay, should not be under-estimated.

To set off against all these advantages there is only one

drawback. Germany has now contracted to pay under all conditions a sum of 612 million gold marks annually for a period of thirty-six years. When it is remembered that the German Government would have been prepared after Locarno to capitalise some part of her annual payments for France's benefit had market conditions and the interest of her creditors as a whole permitted, and to do this without receiving any financial concessions in exchange, we are perhaps justified in concluding that the very real advantages of the Young Plan have been purchased by Germany very cheaply.

In the circumstances, it may well be asked why opposition to the plan made itself heard in Germany. On this it may be remarked that the opposition, which was mainly political, was conspicuous rather for its noise than its numbers. The public opposition to the acceptance of the plan was conducted by the backwood Nationalists with rather more stupidity, but perhaps less bad faith, than their previous campaigns. The feeling almost universal in Germany was that the Young Plan was not a solution of the reparation problem, but was an improvement on the Dawes Plan, and therefore the lesser of two evils. Most people thus shared Hugenberg's dislike of the new plan, though they expressed it in more temperate forms, and only parted with him on a question of tactics. The view of the opposition was that it would have been better to continue under the Dawes Plan until transfer broke down, as it thought would inevitably happen; German acceptance of the plan was based on the view that it was better to put off the evil day in the hope that before any critical situation could arise (and the reduction of German payments, especially in the early period, would certainly defer

a crisis), the world as a whole, and the United States in particular, would be more inclined to seek salvation in a general cancellation of international payments between Governments. A further argument on which the opposition relied was that Germany was undertaking final obligations which she did not honestly believe to be executable in the long run, and in doing so had abandoned the safeguard of transfer protection; unfortunately, the answer that the new plan only makes a show of destroying transfer protection was not one which any of the Governments concerned desired to hear emphasised. Finally, the opposition were able to make play with the fact that Dr. Schacht, as the principal German member of the Young Committee, had finally accepted a settlement which was much more onerous than the offer which he had made as representing the maximum which Germany could safely undertake. Assuming, as they were bound to assume, that Dr. Schacht was an honest expert, the necessary inference was that his acceptance was dictated by political motives, and did not reflect his expert judgment of the possibilities.

What had France to gain and lose by acceptance of the new plan? If we divide all Gaul into two parts, one inhabited by those who believe in the reality of a transfer problem and the other by the sceptics, we must assume that the inhabitants of the former largely outnumbered those of the latter. The Young Plan has nothing to commend itself to those who hold that the obligations undertaken by Germany under the Dawes Plan could be punctually and automatically fulfilled. The most they could have been asked to accept was some reduction of the obligations in exchange for their irrevocability and the

possibility of mobilising them as a whole. But only a part becomes mobilisable, and though France has nominally a disproportionate share in the unconditional payments, she only enjoys her privileged position so long as both conditional and unconditional payments are being made. So soon as Germany gives notice to suspend transfers, France must make a special payment of 500 million marks[1] to the Bank for International Payments to enable all Germany's creditors to be paid in the correct proportions.

The French case for opposing the Young Plan, at least if it is regarded from an exclusively national standpoint, was as strong as the German case for accepting it. The French opponents of the plan could represent it with considerable show of reason as merely a second edition of the Dawes Plan, with a reduction of Germany's liabilities, the abolition of all forms of control, and the maintenance under a new name in a different location of the Transfer Committee to protect Germany, except for a fraction of her payments. And, in exchange for these blessings, France was further to evacuate the Rhineland before the due dates.

The one advantage offered was the possibility of mobilising part of the debt, and this was more apparent than real. France did not require capital sums, but steady annual income to meet the claims upon her. Complete mobilisation of the German debt would have had enormous advantages; it would have meant the end of reparation as a political question, and made Germany a debtor on reparation account, not to Governments, but to private

[1] Unless this amount has already been deposited by France with the Bank out of the proceeds of mobilisation.

holders throughout the world, with whom Germany would have had to keep faith or destroy her own credit. (It is true, but it scarcely affects the argument, that wholesale mobilisation on this scale was probably not even theoretically possible, except by a simple exchange of French, British, and other Government debt against German reparation bonds.) A partial mobilisation has no such advantage, and may be positively mischievous in suggesting that the amount of the unconditional payment is the utmost which Germany can pay in the long run. What save good faith – and the Frenchman in whose name we are speaking does not believe in German good faith – is to prevent Germany a few years hence, when she is no longer dependent on the import of capital from abroad, and therefore not so concerned to maintain her international credit, from declaring a moratorium and refusing to do more than provide for the unconditional payments?

It is surprising, not that France accepted the plan, but that the opposition to it was comparatively ineffective. Acceptance was absolutely necessary; the French experts would presumably never have signed it, for it certainly gave France less than had been confidently expected when the Committee was instituted, had they not been convinced that a crisis, for which France had no desire to accept responsibility, would have immediately followed the failure of the Committee to submit a unanimous report. When once the report was signed, resistance to any of its main principles was still less feasible; whatever befell, it became impossible ever again to demand more from Germany than the experts had unanimously agreed was the maximum which could be required. And the longer it

took to bring the new plan into operation the clearer it became that a reversion to Dawes payments was a political and moral impossibility.

If the obligations of the Dawes Plan were within Germany's capacity, the burdens of the new plan are *a fortiori* bearable; if the obligations of the Dawes Plan exceeded Germany's capacity, we must ask whether they have now been scaled down to a point which brings them within it, and we shall find no reasoned answer in the pages of the Young Report, but merely an expression of opinion the grounds of which are not expounded; the discussion of principles, which was not the least valuable part of the Dawes Report, finds no counterpart in the later document and we are left to grope among the public controversies of the last five years.

Most competent judges are agreed that Germany will for some time continue to require foreign capital; the rate of interest prevailing, or rather the amount by which that rate exceeds the rates prevalent in other large centres, is evidence enough of her need. The new plan, by lowering the amount demanded for the next few years, decreases at the same time the amount of capital which Germany will have to import, and to this extent alleviates the situation. If confidence is restored there is no doubt that foreign loans to Germany can continue for a long time. There is no sign that the saturation point in German investments has been reached in the world at large, and Germany has plenty of first-class assets to pledge. It must not be overlooked, however, that if any large proportion of the unconditional part of the Young annuities is mobilised, the market for other German securities may be seriously straitened. Moreover, if the rates which must be

paid for borrowed money remain at present levels, they may be expected to exercise a pernicious influence on Germany's capacity to produce at competitive prices. An industry which has obtained the main part of its capital at low rates, and which has been relieved of a large part of its old debt by a fantastic currency depreciation, can afford to pay a high rate for an accretion of capital which is small in relation to its total capital. But as the years pass, every addition of capital sought in the market increases the prior charges on an undertaking, and increases the proportion of capital obtained on onerous terms. If the undertaking is prosperous, it tends to avoid the need for borrowing by re-employing its profits rather than distributing them, but this prudent policy defers the investor's hope, and must end by making his heart sick; the process long enough continued must make it more rather than less difficult to obtain money for new enterprise. Nor must it be forgotten that from the point of view of the foreign lender a rate of interest can be so high as to cease to be attractive, and begin to act as a danger signal. From this point of view there is probably little margin left in German rates. Finally, loans will be checked naturally unless there is some evidence forthcoming soon that Germany is not borrowing at compound interest, but is gradually reducing the adverse character of her balance of payments.

In the long run, Germany cannot continue to be a borrowing country; she must out of her own earnings pay for her necessary imports of foodstuffs and raw materials and meet the charges on what she will have already borrowed abroad and owes on reparation account. She can only do so on the existing volume of world trade by reducing her

imports and augmenting her exports; it is hard to resist the conclusion that to achieve this she must lower her standard of living in order to sell more cheaply than other industrial countries. We have discussed briefly in an earlier chapter the forces that retard, and may prevent, development along these lines. It is impossible to be confident that the necessary elasticity exists in the various factors. What chances would Great Britain have if she had lost all her foreign wealth and had replaced it by a large debt contracted abroad?

If world trade expands, the outlook will be very different, and there is plenty of room for expansion; the natural wealth of the world, even of Europe, is not being exploited. If we could hope that Russia would emerge once again into the community of trading nations, if we could hope that a stable Government could be instituted in China, the resultant expansion of trade, by which Germany would be one of the principal beneficiaries, would go far to solve all our troubles.

Even without bringing new markets into consideration, there is room for a large expansion of trade if the industrial nations of the world were not straining every effort to sell without buying, and the non-industrial nations striving to become industrial by setting up prohibitive tariffs. Bankers may issue manifestoes, League of Nations committees may preach the true gospel and pass resolutions, Sir Clive Morrison-Bell may carry round Europe his pageant of a tariff wall – it is all dismissed as academic; every country has its Balbus, with a vested interest in the multiplication of walls which threaten in certain countries to become skyscrapers. It is reported that Dr. Schacht would have been willing to undertake the standard

Dawes annuity of 2½ milliard marks if he could have been assured of free markets for German exports!

During 1929, German trade figures have exhibited a remarkable improvement, and there will probably be no adverse balance.[1] Throughout the period, Germany has been cut off from loans abroad on long term owing to the magnetic power of the New York stock market. It is impossible to say how much new money has been borrowed on short term, or obtained through the sale of participations in German businesses or of German securities to the foreigner; it is improbable, however, that Germany owes much more at the end of 1929 than at the beginning, and we are presented with an example of the process which should come into operation if the supporters of the theory that Germany will automatically develop a foreign surplus if only she ceases to borrow are correct. The same process was at work at the end of 1925 and the beginning of 1926, when, even though foreign capital was then being imported, exports exceeded imports. On that occasion, however, the excess was obtained chiefly by a restriction of imports; the period was one of profound depression, and the country lived on its stocks, with the result that as soon as trade revived large imports of raw materials were required and the balance again became adverse. In 1929 imports were well maintained, and the change is due to an absolute increase in exports.

The run is much too short to enable us to base any far-reaching conclusions upon it; so far as it goes it is undoubtedly encouraging, but the background to the picture

[1] These words were written in the autumn of 1929. In fact, if reparation deliveries are included in exports, there was a small favourable balance, and if they are excluded an adverse balance of about three-quarters of a milliard marks.

is more sombre. As at the beginning of 1926, unemployment has been high, throughout 1929 it was consistently higher than in 1928, and threatens to break all records in the winter of 1929–30. Bankruptcies are again numerous; prices on the internal market are not appreciably lower; and it is open to question how far exports have been artificially increased by the system, which cannot be indefinitely prolonged, of selling dear at home and cheap abroad. Wages have not fallen, and are indeed more inclined to rise than to fall. Most significant of all, the budget position has been one of extreme difficulty; this is partly attributable to bad management, but, while more expenditure is required for the support of the unemployed, revenue in every department is inelastic, and the yield of consumption taxes is definitely on the down grade. In spite of the so-called solution of the reparation problem, a spirit of profound depression reigns supreme. We shall need much more experience before we can pronounce on the question whether Germany is in the throes of readaptation which will convert her from an importing to an exporting country, or whether she is moving towards the crisis which is inevitable if the external burdens placed upon her are in fact too heavy.

The position is obscured by a general *crise de confiance* in the world, thanks to a speculative boom in New York, which upset the money markets of the world and may by its reactions give rise to an industrial crisis of shorter or longer duration and of more or less intensity. The Dawes Plan was in operation too short a time to throw any clear light on Germany's capacity to pay; the Young Plan makes less demands on Germany and is *pro tanto* more easily executable. No one can foretell whether the reduction has

been radical enough; it is a question, at any rate, on which experts are not agreed, and on which the experts who are responsible for the reduction give us no guidance. *Solvetur ambulando*; but in any case the new plan does impart one new element of hope. If Germany could manage, apart from reparation payments, to stand on her own feet, the additional effort to be made in the next few years to cover reparation obligations is of no great enormity for a country of her size, wealth and, above all, vitality. If we can weather the next few years, and if the experience which they bring demonstrates that the burden placed on Germany is too high and that the whole world is suffering under the strain, dare we not hope that the ultimate recipient of two-thirds of Germany's payments, the United States of America, will make concessions which will automatically reduce Germany's burden? If in the future Germany claimed a moratorium, and if in the resultant resettlement the amount of Germany's conditional payments was appreciably reduced, it would be difficult to find any financier ready to underwrite France's debt to the United States. As the rulers of the British Empire were once warned, when that Empire still included the District of Columbia, "a great empire and little minds go ill together, and generosity in politics is not seldom the truest wisdom."

The plan does at any rate make it clear that, except for some 700 million marks a year, Germany is being taxed for nearly two generations to enable the rest of the world to pay its debts to the United States Government. A creditor nation exporting more than it imports, and deliberately hindering imports, is an anomaly; if a country wishes to be both an exporter of capital and goods, it must

each year increase its exports of capital to cover both the amount due on capital already exported and the value of its surplus export of merchandise; the process cannot continue indefinitely, for it means that the rest of the world is getting deeper into debt without improving its capacity to repay the debt in the future. Will not the United States of America be faced, and sooner rather than later, with the choice between the restriction of imports and the continued investment of money abroad? Announcements *ex cathedra* would suggest that the American penalties on imports of goods are only imposed in order that the American standard of living may be maintained, and that American prosperity is a comforting thing for the rest of the world to contemplate and imitate. Which is about as useful to a stricken Europe as advice to eat cake if there is not enough bread to keep body and soul together. American prosperity under high protection does teach Europe one lesson: that no European State has a large enough free trade area and that the European area of free trade must be extended if we are to compete with America. This lesson will surely be learned in time – but not overnight, and probably not soon enough to solve the reparation problem.

We have had more than ten years of reparation, and we have not yet, in the opinion of the writer, reached an assured final settlement. But we have undoubtedly made some considerable progress, and it will be interesting to see in conclusion what some of the various proposed and provisional settlements amounted to in figures, adopting a uniform rate of 5 per cent.

During the Peace Treaty Conference, the German Government made an offer the exact value of which is a little

hard to calculate. Mr. Keynes, who considered it a mistake on the part of the Allies to reject the offer summarily, estimated its present value at the time as 30 milliards; a recent calculation[1] gives 36.1 milliards. The Schedule of Payments, which officially fixed Germany's debt, had a purely nominal value of 132 milliards; of this total, interest and sinking fund were immediately payable only on 50 milliards, and the balance of the debt began to bear interest at an uncertain date in the future; the present value can only be put at 50 milliards plus *x*. In January 1923, in the course of the inter-Allied Conference[2] in Paris, the breakdown of which preceded the occupation of the Ruhr, the British Government put forward for consideration a new scheme – commonly and not unjustly known as the Bradbury Plan – which would have imposed on Germany obligations with a present value calculated by its advocates at 42 milliards. The present value of the Dawes Plan must depend on the view which is taken of the duration of the various payments prescribed, and, as we have noted in a previous chapter, there is no unanimity as to what would have happened when once the Railway Bonds and Industrial Debentures had been amortised. On the view there defended – that the budget contribution, including the payment from the proceeds of the Transport Tax, continued indefinitely – the present value may be put at 47 milliards, though no exact calculation is possible owing on the one hand to possible postponements by the Transfer Committee, and on the other to the unpredictable amounts which would have been paid under the operation of the Index of Prosperity. The present value

[1] *Wirtschaftskurve*, Heft III. 1929, chap. viii.

[2] *Inter-Allied Conferences on Reparation and Inter-Allied Debts*, Stationery Office, Cmd. 1812, 1923.

of the Young annuities is 38.8 milliards, on the assumption that all payments are punctually met and that no reductions are made.

The difference between what the German Government offered at Versailles in 1919 and what all parties are accepting in 1929–30 runs to a few milliards. For this difference we have had ten years of political wrangling and financial uncertainty; we have devoted to the hunting of the will-o'-the-wisp or the chimera energies which should and could have been better employed in restoring Europe and healing the wounds of the war. It would be a profound mistake, however, to imply that we have now only returned to where we were ten years ago; though our journey seems to have brought us back to our starting-point, we have learned much *en route*. To anyone who has been throughout this period immersed in international politics or finance, the day to day progress, the year to year progress, has always seemed painfully slow, halting, and doubtful; but if we pause to think what the spirit and atmosphere of the world were in 1919, what waste and destruction had been consummated and what hatred engendered in four years of war, and then consider how much has been reconstructed on a sounder political basis, and how sincere the present desire for reconciliation is in large masses of people in every country, we can find much ground for encouragement and even reasoned optimism. If we continue to progress at the same rate, recovery from the effects of the greatest of all wars will be more rapid than the most hopeful would have dared to prophesy at its conclusion. There is much that is obscure in the development of the next few years, and especially in the future history of the reparation question, but "if hopes

are dupes, fears may be liars." And if in the future, as in the past, we are tempted to lose heart or temper over slow progress or positive setbacks, we may say with the same poet:

And not by eastern window only,
When daylight comes, comes in the light.
In front the sun climbs slow, how slowly,
But westward, look, the land is bright.

However far westwards we travel in Europe, there is no brightness sufficient to dazzle us, but the key of the situation will perhaps yet be found west of Europe and beyond the ocean.

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